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MERGERS AND ACQUISITIONS AS A BUSINESS OPPORTUNITY  
FOR COMPETITORS

Master of Science Thesis

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## ABSTRACT

**KUZMENKO, OLENA:** Mergers and Acquisitions as a Business Opportunity for Competitors

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Expanding business through acquiring new customers can be challenging in the industries with high supplier switch barriers. In the attempt to increase reliability in the operation and maintain stable quality level companies tend to establish long-term, value-added cooperation. Strong relationship between a supplier and a customer significantly decreases companies' agility. Nevertheless, a major organizational change, like a merger or an acquisition, in supplying company are able to destabilize strong partnership, that has been built even through years of cooperation.

The objective of this thesis is to explore business opportunities mergers and acquisitions represent for competitors in industries with high supplier switch barriers, and to create a tool for their proactive identification. Organizational changes not only affect a company in which they take place, but their consequences spread outside company's boundaries and influence business partners. The stronger cooperation between companies, the bigger impact on partners a change will cause. Although mergers and acquisitions are usually aimed at increasing value delivered to customers, practice shows that during post-merger stage customers often experience insecurity and disbelief in positive outcome, and exhibit resentment toward the change.

The outcomes of this study suggest that temporary customer dissatisfaction with current supplier and supplier's inability to deliver previous value to customer that occur during mergers and acquisitions creates favourable environment for competitive responses. Although mergers and acquisitions happen comparatively infrequently, they can impact a group of potential customers at a time. For this reason, it is important that a company, which is going to use mergers and acquisitions in competitors as opportunities to get new customers, integrates it as a strategy and continuously works on gaining competitive intelligence in order to be proactive and catch opportunities timely.

## **PREFACE**

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## LIST OF SYMBOLS AND ABBREVIATIONS

B2B	Business to Business
CI	Competitive Intelligence
CIT	Critical Incident Technique
KITs	Key Intelligence Topics
M&A	Merger and Acquisition
SCIP	Strategic and Competitive Intelligence Professionals
SPAT	Switching Path Analysis Technique

# 1. INTRODUCTION

## 1.1. Background

Mergers and acquisitions (M&A) are primarily driven by strategic objectives, for example, about 90% of historic M&A deals were aimed at corporate development (Bower, 2001). However, since M&A transaction requires premium payments, creating value through M&A implies getting benefits out of synergy (Sirower, 1997) and the value is generated only via post-M&A integration (Haspeslagh & Jemison, 1991). Post-M&A integration is an important concluding stage of a M&A deal, which can be determined as a collaborative process between merging parties to transfer strategic capabilities such as operational resources, functional skills and general management skills (Haspeslagh & Jemison, 1991). Integration activities can be categorized into three types, each of which has its specific challenges: procedural integration or standardization, physical integration, and managerial and sociocultural integration (Shrivastava, 1986). These activities are usually conducted during one to two years after a M&A deal is done (Homburg & Bucerius, 2005; Gates & Very, 2003).

Commonly, the difference between intentions and outcomes of M&A is so big that it is described as “myth and reality” (Haspeslagh & Jemison, 1987; Kohers & Kohers, 2001). Scholars (Hunt, 1990; Schmidt & Fowler, 1990; Weston & Weaver, 2001) and media (Gimbe, 1995; Benson, 2004) continuously publish information about high M&A failure rates. Different sources report that M&As fail, and the failure rate varies from 50 percent to two third (Öberg, 2008). Integration is frequently mentioned as a critical point in M&A failures (Haspeslagh & Jemison, 1987; Hunt, 1990; Beusch, 2007) leading to employees’ anxiety, management turnover and cultural clashes (Astrachan, 1990; Risberg, 1999; Slowinski et al., 2002).

Customer retention (Zollo & Meier, 2008) and the ability to deliver perceived value to customer (Dalziel, 2007) are known to play a vital role in the success of post-M&A integration. Yet, companies in M&A often concentrate excessively on cost savings and fail to deliver benefits to their customers (Sikora, 2005). In a business-to-business (B2B) environment, expected synergies sometimes are not achieved due to behavior of key customers (Öberg, 2008). Even a stable business relationship do change over time (Gadde & Mattsson, 1987). Most probable changes in relationships occur when incremental changes happen, because during this time relationships and parties develop, but relationships may also be terminated rapidly, and one trigger to termination is ironically M&As (Halinen et al., 1999; Tähtinen et al., 2000; Anderson et al., 2001). To illustrate

this, Rydén (1971) argued that customer losses tend to be between 25 and 50 percent of the acquired company's customer base. Consequently, M&As while aiming at acquiring more customers, may instead end up in customer losses.

Competitors usually respond fast if they identify competitive threat (Porter, 1980). A great amount of responses is projected when a company's market action has a noticeable competitive influence on its rivals (Chen et al., 1992) and M&A is the most noticeable competitive move among others (Chen & Miller, 1994). Several scholars have studied rival moves during M&A with the aim to predict and diminish them. Competitive responses can become fierce when integration starts (Kato, 2012). Unsteady post-M&A settings stimulate customers' fear regarding interruption in service delivery, which increases competitive attacks (Clemente & Greenspan, 1997) attempting to unsettle the relationship of merging firm with customers (Schweiger, 2002). Meyer (2008) argued that the best time to attack a company is when it is in the middle of a complex merger process. According to him, this is the time when customers are neglected and key employees are likely to leave.

However, the perspective of competitors and business opportunities M&A open to them have not been widely discussed in the research literature. There has been a gap in the literature regarding business environment in which M&A can bring more benefits to competitors. Also, little attention has been given to the area of strategic moves rival companies can undertake.

## 1.2. Objective

The majority of research on the topic of M&A have been primarily focused on issues of acquiring firm and post-acquisition outcomes, while the influence of M&A on external stakeholders has not been widely discussed. That is why this thesis is aimed at focusing on the perspective of external parties of M&A transaction, in particular, customers and competitors. The research intends to move closer to a better understanding of how customers and competitors react on post-M&A integration and the mechanisms by which those responses appear, particularly within the case company's industry context. Also, the thesis seeks to identify the impact of post-M&A integration activities on customer-supplier relationship. Therefore, the objective of this thesis is...

*...to explore business opportunities mergers and acquisitions represent for competitors in industries with high supplier switch barriers, and to create a tool for their proactive identification.*

To address this objective, the thesis goes through M&A, customer loyalty and competitive intelligence literature. Then a framework is designed to demonstrate business opportunities M&A represent for competitors, as well as the necessity of gaining market

intelligence continuously in order to be aware of competitors' M&A and potential customers. Finally, after the completion of market research on competitors, potential leads and collecting historical data about M&As, application of the framework is analyzed in the settings of specific industry of the case company.

### 1.3. Research Process

The research process illustrated in Figure 1 below was started in January 2015 during a project for the course called "Operative Sales and Sourcing". Although this thesis and above mentioned project focused on different issues, they were both aimed at solving the problem of expanding business through acquiring new customers in hydraulic hoses and fluid connectors industry. The research process is demonstrated in Figure 1. Thus, at first market research on customers was done. The research covered two customer segments in which the case company was interested most at that time. Meanwhile the author visited the company to get familiar with its operation from the inside.

Activity	2015												2016								
	01	02	03	04	05	06	07	08	09	10	11	12	01	02	03	04	05	06	07	08	09
Market research on customers																					
Company visit																					
Meeting with company managers																					
Thesis topic is agreed																					
Studying literature																					
Framework creation																					
Linking customers to competitors																					
Research on history of M&A																					
Analyzing opportunities of M&A																					

*Figure 1. Research process.*

When the research on customers was ready it was presented on the meeting with company management. The meeting provided a deeper insight into the company's goals, future perspectives and current difficulties. Fruitful conversation gave an incentive to continue the research and the topic for master's thesis was agreed.

The work on thesis started with studying existing literature, in order to identify theories and frameworks, that might be relevant to the topic. When studying literature on mergers and acquisitions much of attention was given to psychological aspects in both merging company and their customers, and their influence on value creation. With the aim to



incorporate practical and strategic view into the framework the role of competitive intelligence was studied.

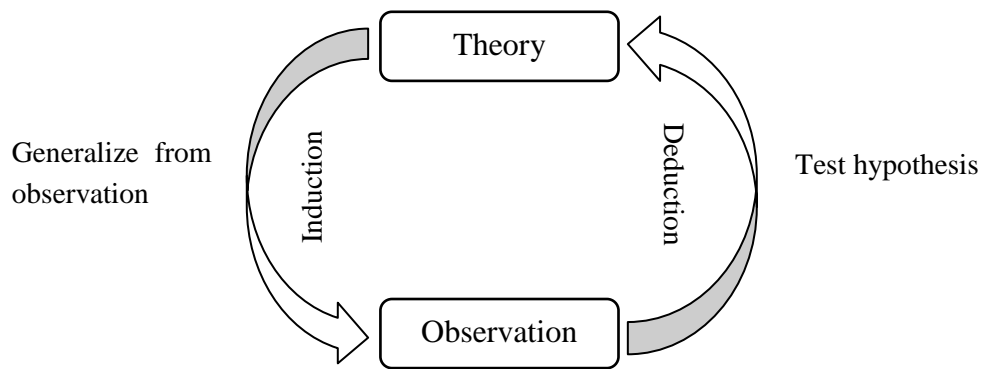
Next, in the scope of the thesis a research on competitors supplying potential customers was conducted. The information about competitors was attained during machinery exhibition by studying sample products of potential customers. After that the author using online sources collected information on mergers and acquisitions that have happened through their history. The historical perspective was taken in order to identify trends and to see general picture.

Finally, the study analyzes opportunities that mergers and acquisitions represent in the scope of the case company industry. The obtained information on potential customers and their suppliers was discussed as a strategic tool for identifying opportunity windows.

#### **1.4. Data Gathering Methods**

Scientific research was defined by Tayie (2005) as a systematic, controlled, empirical, and critical investigation of hypothetical propositions about the presumed relations among observed phenomena. Scientific method refers to a standardized set of techniques for building scientific knowledge, such as how to make valid observations, how to interpret results, and how to generalize those results (Bhattacharjee, 2012). The scientific method helps researchers to independently and without bias test previous theories and findings, and present them to open discussion, changes, or enhancements.

Depending on a researcher's school and focus, scientific inquiry may be inductive or deductive. The inductive approach signify that the researcher does not trial theory, rather he aims at building theory (Eisenhardt, 1989; Woodside & Wilson, 2003; Saunders et al., 2007). On the other hand, in deductive research, the objective of the researcher is to use empirical research for testing concepts and patterns known from theory. This thesis uses inductive approach, which implies that decision on the core topic of the thesis (apart from M&As and competitors) were taken after information gathering. An inductive approach was chosen because of limited research in the area of competitors' perspective on M&A. Consequently, there was no theory specifically in this area to test. Still, it can be argued that the research combines both deductive and inductive approaches as they belong to research cycle, which is demonstrated in Figure 2 below.



**Figure 2.** *The cycle of research (Bhattacharjee, 2012).*

Provided that theories and observations are the two cornerstones of science, scientific research operates in two areas: theoretical and empirical. Wohlin et al. (2006) argued that empirical research can be conducted in a form of experiment, case study, survey and post-mortem analysis. This thesis belongs to the case study category.

Case study method gives an opportunity to a researcher to closely study the phenomenon within a specific context. Commonly, a case study method covers a small geographical area or a narrow circle of individuals as the subjects of study. Case studies are aimed at exploring and investigating current real-life phenomenon through comprehensive contextual analysis of a limited number of events or conditions, and their relationships (Zainal, 2007). Yin (1984) explains the case study research method “as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.” According to Gummerrsson (1993) data gathering methods in case study research can be categorized into five groups. Table 1 illustrates methods and briefly describes each of them.

*Table 1. Data gathering methods (Gummersson, 1993).*

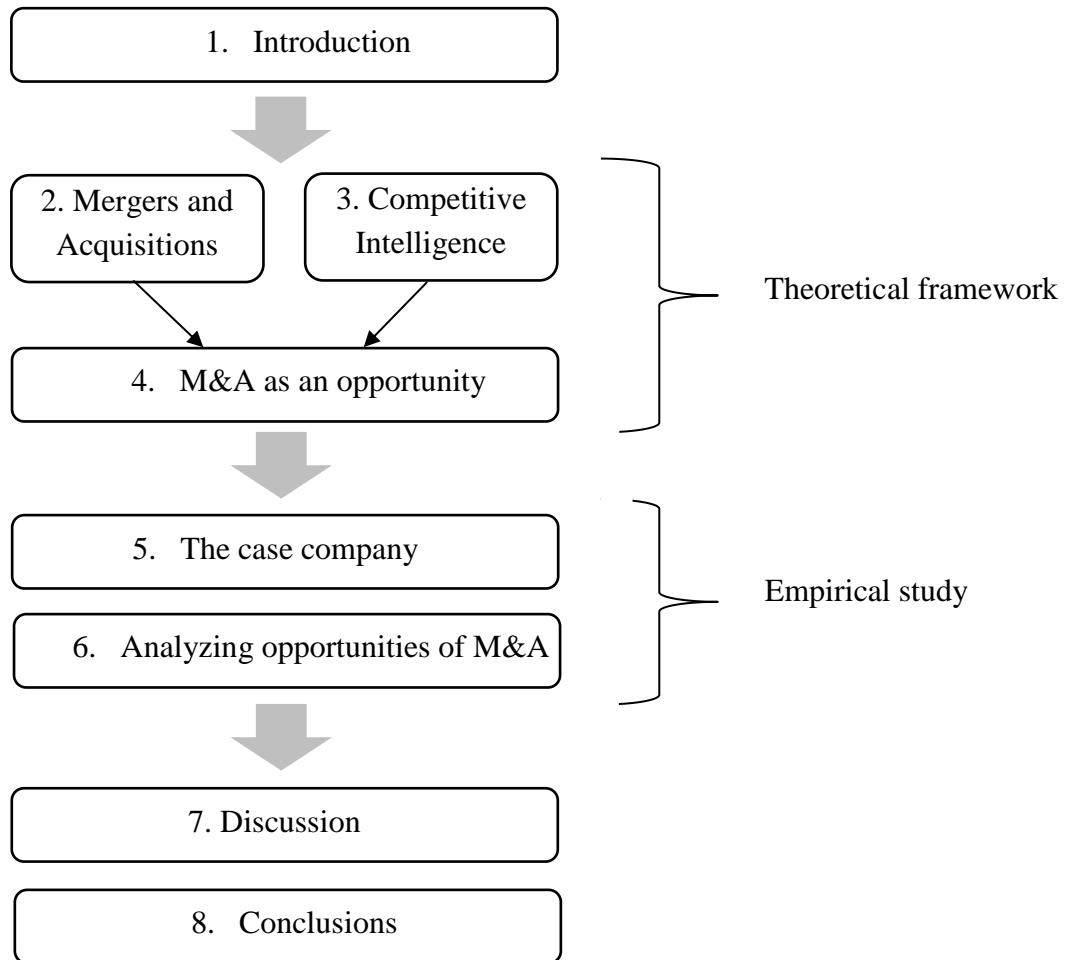
Method	Description
<b>Existing materials</b>	Everything that is carried by other media than human beings (books, research reports, articles archival records, mass media reports, notes, letters, databases, statistics etc.). Existing material is often referred to as secondary data.
<b>Questionnaire surveys</b>	Questionnaires are used to formalize and standardize interviews. They are carried out for the purpose of quantification.
<b>Qualitative interviews</b>	Formal, systematic interview conducted in a form of conversation. The most common way of generating data in case study research.
<b>Observation</b>	The subject of study is observed using all senses of a human being: sight, hearing, touch, smell, taste, as well as intuition.
<b>Action science</b>	Requires total involvement of the researcher, so he becomes an active participant influencing the process under study, a change agent. Can consist all other data gathering methods.

This study was aimed at creating a theoretical framework on business opportunities mergers and acquisitions represent for competitors. The empirical part of the thesis analyses application of the framework in the case company settings and creates a database as a starting point for implementation of the strategy described in the framework. The author used various data gathering methods and it can be claimed that the primary method for the study was action science. The reason for that is, first, that the researcher interacted with case company management in order to get information about current issues and problems the company needs to solve. Second, the results of the study are meant to be applied in the case company, which means that the researcher plays the role of a change agent.

As the major part of the empirical study consists of market research using existing materials data gathering method was widely exploited. At first, information from the company's website, catalogues, brochures and other online sources were studied in order to get familiar with company's operation, its position in the market and business perspectives. After that while conducting market research the study used different kinds of industrial databases, industry associations, company websites, exhibitors' lists of trade fairs and distributors' product lists. Both primary and secondary sources of information were used.

## 1.5. Structure of the Thesis

This thesis consists of eight parts. The structure of the thesis is illustrated in Figure 3 followed by description of the content and objective of each chapter.



**Figure 3.** *Structure of the thesis.*

Chapter 1 illustrates background and main objective of the study, as well as approach and motivation for the research. Furthermore, it gives details regarding research process and data gathering methods used in the study.

Chapters 2, 3 and 4 form theoretical part and provide an insight into existing concepts, theories and frameworks, which are related to the topic of this thesis. Chapter 2 introduces the concepts of merger and acquisition, and discusses current trend regarding mergers and acquisitions in business world. Also, the chapter describes changes that happen inside an organization during M&A, as well as their influence on relationship with outside stakeholders. Chapter 3 discusses the role of competitive intelligence for maintaining competitiveness and profitability of a business. It elaborates on the role of competitive

intelligence in an organization and enlightens particularities of obtaining market knowledge from online sources. Finally, the chapter describes the effect of M&A on customers. The core framework of the thesis is introduced in Chapter 4. It discusses customer reactions to M&A, and business opportunities they represent for competitors in industries with high supplier switch barriers. The chapter introduces the concept of customer loyalty and gives an insight into barriers and incentives for switching supplier.

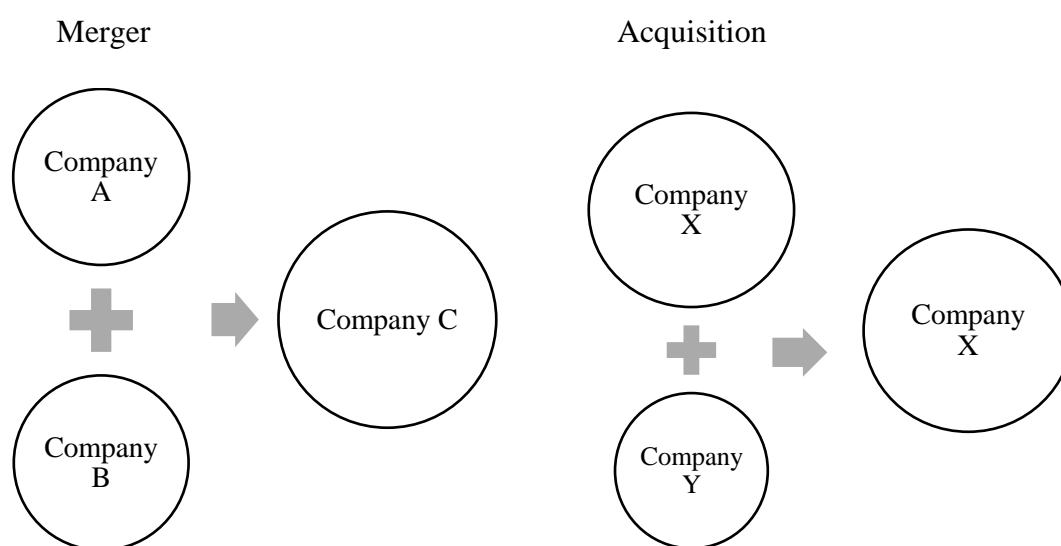
Chapters 5 and 6 belong to the empirical part of the thesis. Chapter 5 gives a brief description of the case company's history, structure, key competences and products. It presents information regarding company's production philosophy and describes its cooperation with customers. Finally, it describes what obstacles companies in the industry face with when planning to expand business by acquiring new customers. Chapter 6 describes the process and results of the market research conducted for the case company. It comprises study on customers, competitors, and history of mergers and acquisitions in the industry. Further the chapter discusses opportunities mergers and acquisitions represent for the case company.

Chapter 7 firstly briefly recaps the theory framework and discusses the empirical case in light of theory framework. It elaborates on practical and theoretical contribution of the research and points out research limitations and directions for further research. Finally, Chapter 8 provides concluding reflection of the accomplished work.

## 2. MERGERS AND ACQUISITIONS

### 2.1. Definition and History of M&A

A merger or an acquisition from a company perspective can be defined as the combination of two or more companies into one new company or corporation (Wallace & Moles, 2010). Although these terms are often used interchangeably, they have different meaning. The difference is demonstrated in Figure 4.



**Figure 4.** *The difference between a merger and an acquisition (Modified from CFA Institute, 2013).*

When one company takes over another and clearly established itself as the new owner, the purchase is called an acquisition (Giddy, 2009). In acquisitions the dominant company is usually referred to as the acquirer and the lesser company is known as the acquired, furthermore, the lesser company is often referred to as the target up to the point where it becomes acquired (Wallace & Moles, 2010). Mainly the acquirer acquires the target by purchasing its shares. The acquirer buys shares up to a moment when it turns into the owner. From a legal point of view, the purchased company stops to exist, the buyer "engulfs" the business and the buyer's stock continues to be traded. Nevertheless, the acquirer might retain acquired company in its pre-acquired form if it is planned that the latter will be sold at a profit in the future.

During acquisition the negotiation process occurs in some cases depending on if an acquisition is friendly or hostile. When a friendly acquisition takes place, the target is willing to be acquired as it may perceive the acquisition as an opportunity to develop into new areas and use the resources offered by the acquirer (Wallace & Moles, 2010). This

usually takes place when small successful companies wish to develop and grow business but are lacking capital. The smaller company may keenly look for a larger partner who is able to make the necessary investment. In such scenario the acquisition is called a friendly or agreed acquisition. Alternatively, hostile acquisition can be determined as an acquisition of control of a target company without a contract or a mutual understanding with the management of the target firm (Savela, 1999). If a bid is placed for the shares of the target company without informing its board, the term hostile takeover is also used (Damodaran, 1997).

On the contrary to acquisition in a merger always a process of negotiation occurs between two companies before the transaction takes place (Wallace & Moles, 2010). If the outcome is advantageous, a merger of two companies will happen in order to form a new larger whole. In a merger, two separate companies are unified and only one of them survives (Giddy, 2009). This means that the acquiring company becomes an owner of assets and liabilities of the acquired company, and the latter stops its existence. Typically, when two companies of considerably different sizes merge, the smaller company will assimilate into the larger one, while the larger company remains unchanged. The stocks of both merged companies are surrendered and new stocks are issued for the new merged company.

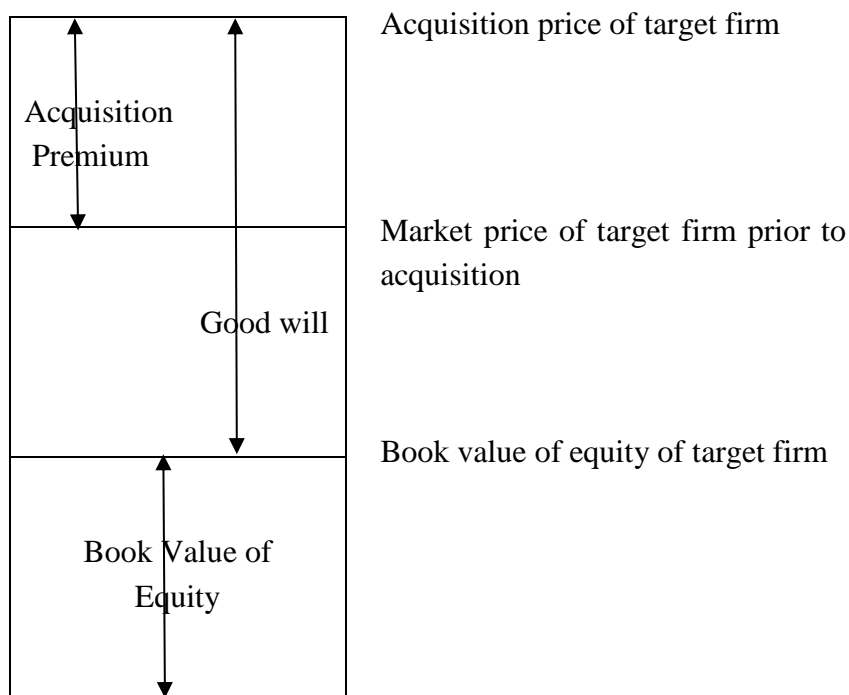
Depending on relations between companies and their position in the industry acquisitions and mergers can be categorized into horizontal, vertical and conglomerate. The characteristics of each type are shown in Table 2.

**Table 2.** *Types of acquisition and merge (Modified from Evans, 2000).*

Type	Characteristic
<b>Horizontal</b>	Two firms are merged across similar products or services. Horizontal mergers are often used as a way for a company to increase its market share by merging with a competing company.
<b>Vertical</b>	Two firms are merged along the value-chain, such as a manufacturer merging with a supplier. Vertical mergers are often used for gaining competitive advantage within the marketplace.
<b>Conglomerate</b>	Two firms in completely different industries merge. Conglomerates are usually used as a way to smooth out wide fluctuations in earnings and provide more consistency in long-term growth.

The reason why the combination of two companies will be a good business decision is different in each individual case. The joining or merging of the two companies creates additional value which is called "synergy" value (Evans, 2000). The essential principle in mergers and acquisitions is that  $2 + 2 = 5$ . For example, if the value of Company A is \$2 billion and the value of Company B is \$2 billion, but after a merger the total value of new

company is \$5 billion. Synergy, the increase in value that is generated by combining two entities to create a new and more valuable entity, is the magic ingredient that allows acquirers to pay billions of dollars in premiums in acquisitions (Damodaran, 2005). Figure 5 demonstrates how price in an acquisition is built.



**Figure 5.** Acquisition price formation (Damodaran, 2005).

Mostly cost reduction is the biggest source of synergy value. The incentive for many mergers is the need for lower costs. Cost savings are often obtained by unifying services, such as human resources, accounting and information technology. However, according to Evans (2000) synergy value can take three forms:

- Revenues: By combining the two companies, higher revenues are realized than if the two companies operate separately.
- Expenses: By combining the two companies, lower expenses are realized than if the two companies operate separately.
- Cost of capital: By combining the two companies, a lower overall cost of capital is achieved.

Mergers may also have strategic reasons for combining two businesses, such as positioning on market place, filling weaknesses gaps, acquiring new competencies and getting broader market access. Furthermore, mergers can be driven by basic business reasons, which include diversification, short term growth, attractive undervalued



acquisition target and bargain purchase, meaning that in some cases it may be cheaper to acquire another company than to invest internally (Evans, 2000).

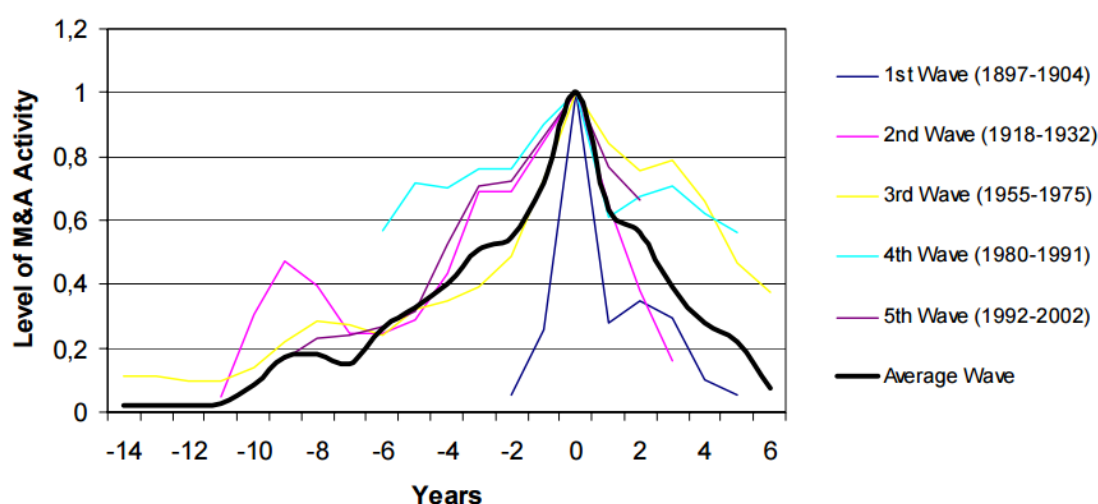
Industries go through life-cycle stages and these stages are characterized by marked differences in investment and restructuring activity (Gort & Klepper, 1982; Jovanovic, 1982; Klepper & Grady, 1990; Klepper, 1996). The evidence suggests that changes in the number of firms in an industry occur at times of transition in an industry's life cycle, that is, when the producers' competitive advantages are changing. (Maksimovic & Phillips, 2008). Industries tend to experience M&As most of all during the stages of active growth and declining. In addition, as it is demonstrated in Table 3 the type of M&A tend to vary depending on lifecycle stage.

**Table 3.** *Acquisitions and merges in the industry lifecycle (CFA Institute, 2013).*

<b>Industry Life Cycle Stage</b>	<b>Industry description</b>	<b>Motives for Acquisition or Merger</b>	<b>Type of Acquisition or Merger</b>
Pioneering development	<ul style="list-style-type: none"> <li>• Industry exhibits substantial development costs and has low, but slowly increasing sales growth.</li> </ul>	<ul style="list-style-type: none"> <li>• Younger smaller companies may sell themselves to larger companies in mature or declining industries and look for ways to enter into a new growth industry</li> <li>• Young companies may look to unify with companies that allow them to pool management and capital resources</li> </ul>	<ul style="list-style-type: none"> <li>• Conglomerate</li> <li>• Horizontal</li> </ul>
Rapid accelerating growth	<ul style="list-style-type: none"> <li>• Industry exhibits high profit margins caused by few participants in the market.</li> </ul>	<ul style="list-style-type: none"> <li>• Explosive growth in sales may require large capital investment to expand existing capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Conglomerate</li> <li>• Horizontal</li> </ul>
Mature growth	<ul style="list-style-type: none"> <li>• Industry experience a drop in the entry of new competitors, but growth potential remains.</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisitions and merges can be undertaken to achieve economies of scale, cost savings, and operational efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• Horizontal</li> <li>• Vertical</li> </ul>
Stabilization and market maturity	<ul style="list-style-type: none"> <li>• Industry experiences increased competition and capacity constraints.</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisitions and merges may be undertaken to achieve economies of scale in research, production, and marketing to match the low cost and price performance of other companies (domestic and foreign).</li> <li>• Large companies may acquire smaller companies to improve management and provide a broader financial base.</li> </ul>	<ul style="list-style-type: none"> <li>• Horizontal</li> </ul>
Deceleration of growth and decline	<ul style="list-style-type: none"> <li>• Industry faces overcapacity and eroding profit margins.</li> </ul>	<ul style="list-style-type: none"> <li>• Horizontal mergers may be undertaken to ensure survival.</li> <li>• Vertical mergers may be carried out to increase efficiency and profit margins.</li> <li>• Companies in related industries may merge to exploit synergy.</li> <li>• Companies in this industry may acquire companies in young industries.</li> </ul>	<ul style="list-style-type: none"> <li>• Horizontal</li> <li>• Vertical</li> <li>• Conglomerate</li> </ul>

The intention to merge is influenced to some extent by the industry life cycle stage. Usually among motivation factors are need for capital or resources, competitive situation, organic or external growth opportunities and opportunities for synergy.

When looking at mergers and acquisitions from historical perspective it is easy to notice that they happen in waves. Studying a century of transactions has helped to identify six major waves of acquisitions and merges: 1897–1904, 1918–1932, 1955–1975, 1980–1991, and 1992–2002 (Martynova & Renneboog, 2008). The term ‘takeover wave’ reflects the wave pattern of the number and the total value of takeover deals over time (Martynova & Renneboog, 2008). A series of sine curves provides significant explanatory power for the time series of takeover activity (Golbe & White, 1993). Moreover, the analysis of sine curves allows to predict the actual ups and downs in takeover activity. The wave-like nature of M&A activity through the history is demonstrated in Figure 6.



**Figure 6.** Wave-like nature of M&A activity (Steger & Kummer, 2007).

It is not definitely known why mergers occur in wave patterns and it is common that the mergers occur within different industry clusters (Mueller, 2003). The first wave that appeared in the United States from 1897 to 1904 was, as Sudarsanam (2003) characterizes it, a merger for monopoly. The typical merger at that time occurred in the same industry unifying several manufacturers, a so called horizontal consolidation which formed large corporate giants, and a nearly monopolistic market, such as General Electric, Eastman Kodak, and DuPont (Sudarsanam, 2003).

The second wave came during a period of economic growth after World War I in the 1920s. In the technological field, automotive transport development by opening local markets provided incentives for companies to undertake geographic expansion mergers, especially in service industries (Capron, 1996). While the railway network had connected cities together through the continent, the extensive convenience and affordability of automobiles enabled local customers to reach numerous local and regional stores. Automotive transport made possible for firm to increase efficiency of qualified sales experts. The massive application of trucks and delivery vans boosted the development of firms in food and food processing industries. It was not near as big of an impact as the

first wave, but it helped companies to merge and create strong corporations after the war and earlier market crash in the early 1900s (Roberts et al., 2012).

After World War II, the third wave of mergers occurred in the 1960s, when the vibrant US economy created the environment for rapid growth. This provided incentives for companies to diversify by means of M&As. This wave was characterized by a large number of management problems as acquirers experienced difficulties in managing their newly acquired assets, and there were numerous problems and failures (Roberts et al., 2012). At this time the M&A phenomenon also entered the U.K. in smaller scale and started a trend that later would explode in the U.K. and rest of Europe in the late 1980s and early 1990s (Sudarsanam, 2003).

The fourth M&A wave, which is characterized by mega-mergers appeared in a decade of increasing share prices and an extremely buoyant economy. Relatively low interest rates fueled a considerable number of cash-financed acquisitions of firms that were relatively low performers (Roberts et al., 2012). During this time mergers and acquisitions reached the scale, that have never been seen before, producing mega-mergers. Successive US and UK governments deregulated numerous sectors and relaxed antimerger and merger-control legislation, which actively encouraged large-scale horizontal mergers (Roberts et al., 2012). In the US rivalry was considerably decreased in many industries.

The fifth wave appeared in the 1990's and is called the mother of all waves in terms of financial size of the mergers. A plausible explanation for the last wave is the introduction of new technologies like the internet, cable television and satellite communication (Sudarsanam, 2003). In generating the fifth merger wave it can generally be said that companies were exposed to global competition; many of the old trade barriers weakened or disappeared altogether (Roberts et al., 2012). Global rivalry and deregulation of public utilities in many countries created incentives for deregulation in other areas. Companies were forced to reduce costs, produce higher-quality, and be customer focused in order to survive in fierce competition. All above mentioned provided favorable environment for mergers and acquisitions. Although, different opinions exist among scholars, the majority of them claim that the fifth wave of M&A is still going on.

Due to different business environment and motives, each wave of M&A through the history is characterized by a certain type of deal. Types of M&A inherent for each wave are demonstrated in Table 4.

**Table 4.** *Periods of mergers and acquisitions.*

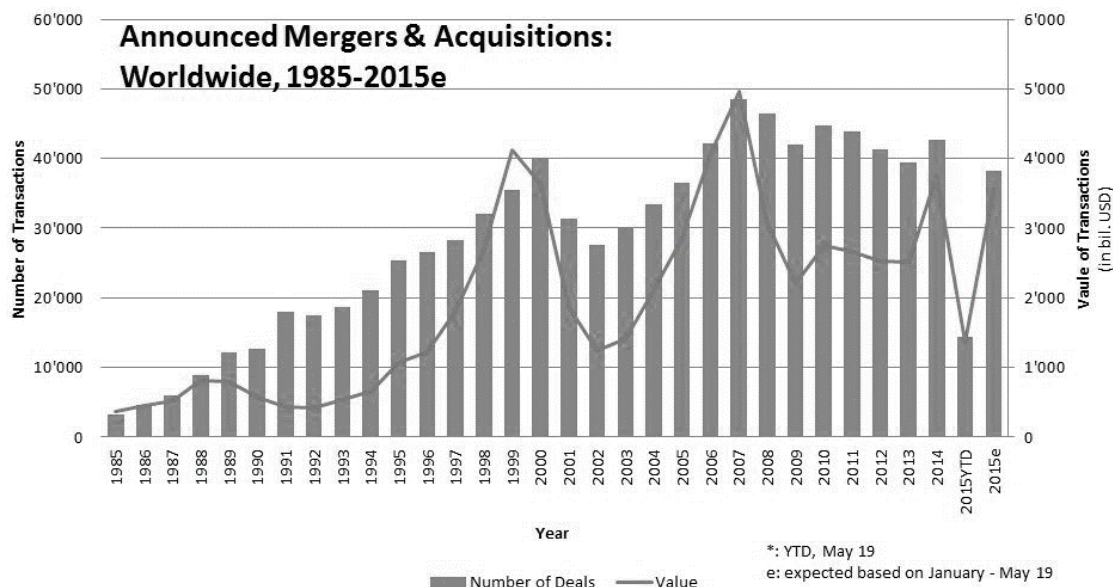
Wave	Time	Type
<i>1st Wave</i>	1897-1904	Horizontal mergers
<i>2nd Wave</i>	1918-1932	Oligopolies and consolidations
<i>3rd Wave</i>	1955-1975	Conglomerates
<i>4th Wave</i>	1980-1991	Mega-mergers and hostile takeovers
<i>5th Wave</i>	1992-2002	Consolidations

The end of a wave usually coincides with a crisis or a recession. There are different theories regarding what triggers M&A waves. Gregoriou and Renneboog (2007) in their study discuss theoretical models behind the motives for takeovers and determine three main groups:

- neoclassical models, which suggests that takeover waves emerge from industrial, economic, political and regulatory shocks;
- models proposing that takeover clustering is driven by self-interest of managers, e.g. herding, hubris, or agency problems;
- models attributing takeovers to general capital market development, thereby suggesting that waves occur as a result of managerial market timing.

Although all M&A waves are unique and exhibit different patterns and underlying motives, several shared features can be determined. First, all waves arise in time of economic recovery (succeeding a market crisis and economic depression caused, for example, by military conflict or energy crisis). Second, the waves coincide with periods of rapid credit expansion and booming stock markets, as it is notable that all five waves ended with the collapse of stock markets (Martynova & Renneboog, 2008). Therefore, it appears that a growing external capital market causes a takeover wave to occur. Third, takeover waves are preceded by industrial and technological shocks often in form of technological and financial innovations, supply shocks (such as oil price shocks), deregulation, and increased foreign completion (Martynova & Renneboog, 2008). Lastly, takeovers frequently emerge in time when regulatory changes (e.g. related to antitrust or takeover defense mechanisms) happen.

Looking at statistic data about M&As occurred during the last few decades provides an opportunity to analyze current situation. The combination of current and historical data allows to forecast what will be going on in the nearest future. The Institute of Mergers, Acquisitions and Alliances (2015) have collected information about M&As happened during the last few decades. The graph showing the number and volume of transactions is demonstrated in Figure 7.



**Figure 7.** M&As worldwide (Institute of Mergers, Acquisitions and Alliances, 2015).

The graph reflects the last two M&A waves. Although after 2007 the value of transactions dropped down the number of deals remains high. In 2014 the value of deals have started to increase rapidly which can signify a new wave. That trend is supposed to continue, if not accelerate, in many industries, among public and private firms and for both corporations and private equity firms, large and small (McGee, 2014).

World consulting firm Deloitte have made a large survey in order to identify trends in M&A activity worldwide. The survey was conducted in 2014 and questioned 2500 executives in companies to identify their expectations, experiences, and plans for mergers and acquisitions in the coming one to two years. The key findings of the survey are shown in Figure 8.

**21%** of companies anticipate major transformation deals, while about one in three will pursue smaller strategic transactions, taking advantage of favorable opportunities. Roughly one in four will react to an opportunity and initiate a deal.

**59%** of corporate responders say their acquisitions and mergers investments will involve an acquisition in a foreign market. Almost three-quarters of private equity firms are expecting to acquire a target in another country.

**62%** of private equity responders expect portfolio exits to increase. They forecast a pickup in exits – with 36% looking at initial public offerings.

**68%** of private equity executives expect their firms to become more industry-focused in the coming year.

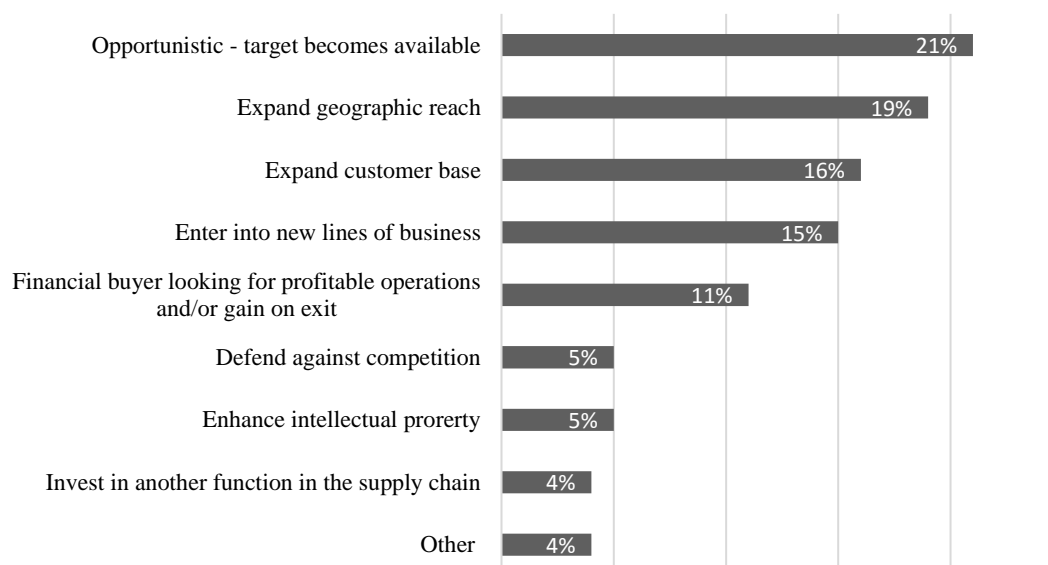
**Figure 8.** Survey among executives in firms (Deloitte, 2014).

M&A activity is being accelerated by returning confidence in a global economic recovery, and the increased is concentrated on the developed, western markets. Investments are starting to flow back into attractive European economies, including those with undervalued assets and distressed opportunities, such as Spain (Clifford Chance, 2014). Africa is becoming more and more attractive for risk-hardened investors, and is showing a big pick-up in M&A activity. The performance of European and US equity markets is quite strong. Similarly, debt markets are booming, with acquirers accessing the leveraged loan and high yield bond markets (Clifford Chance, 2014).

M&A professionals have waited for several years to overcome the recession. According to the survey carried out by KPMG LLP in 2014, deal makers embraced acquisition and mergers with enthusiasm, and respondents expect coming years also to be extremely active (Nachman, 2014). The forecast of the respondents is supported by healthy credit markets, abundant cash reserves and improving employment numbers. Despite the enthusiasm, deal makers recognize that successful deals require superior strategies, comprehensive due diligence, and well-developed integration plans (Nachman, 2014). As soon as these very complex processes have arisen, deal makers should favor the increase in shareholder and investor returns via acquisitions.

The reasons why M&As are initiated are different over the time. According to KPMG LLP (2015) survey report among the most popular incentives now are an attractive target available on the market, desire to expand internationally and striving to acquire more

customers. The predominant motives for acquisitions and merges in 2015 are shown in Figure 9.



**Figure 9.** *Predominant motives for acquisitions in 2015 (KPMG LLP, 2015)*

Corporate respondents expressed their expectations about sectors that will be particularly active from a M&A perspective over the following year. Technology was the leading sector cited for activity, with 28 percent selecting it as the industry most likely to have transactions (Deloitte, 2014). On the second place are health care providers followed by energy (alternative energy and oil and gas), and financial services.

Deloitte (2014) survey findings indicate that 84 percent of corporate executives anticipate a sustained, if not accelerated, pace of M&A activity in the next 24 months. Forty percent of the total questioned executives predict an increase in deal flow. Likewise, the vast majority of corporate respondents (89 percent) are expecting average to high deal activity in the nearest future. Companies and private equity firms alike are showing that they expect vivid deals activity to continue because of their strong balance sheets and ability to finance deals, combined with their desire to grow (McGee, 2014).

## **2.2. The Effect on Organization and Relationship**

Changing an organization is the process of modifying an existing organization with the aim to increase organizational effectiveness, which is the extent to which an organization accomplishes its objectives (Certo, 1989). These modifications can include changing hierarchical structure, ways of communication and responsibility allocation between various organizational members. Smith (2002) defined organizational change as any purposeful change in the way the organization does business that influences the strategic position of the organization and consequently its competition. M&A imply major change



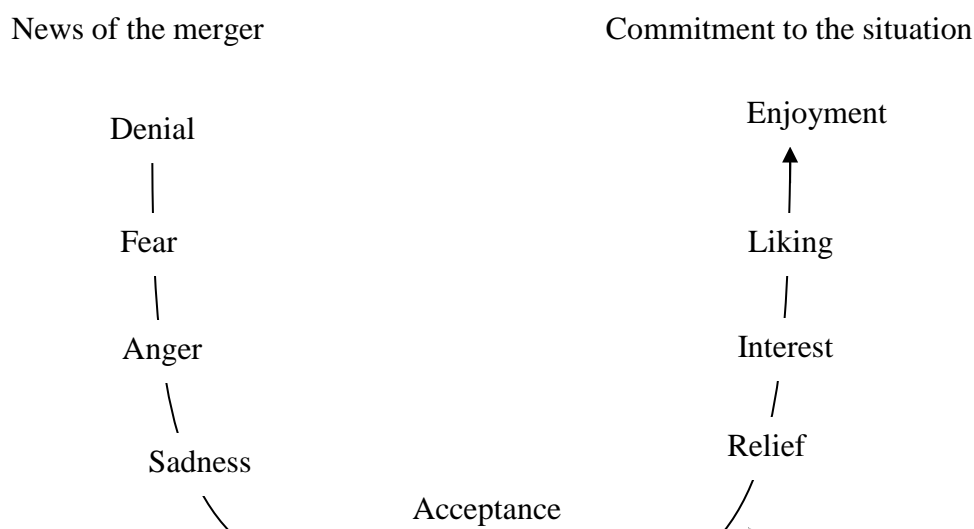
in organization. Some of the issues related to change triggered by M&A are: growth related challenges, restructuring, re-engineering, questions about where to downscale, difficulties with quitting workforce, and problems related to employees' motivation (Galpin & Herndon, 2000).

Mergers and acquisitions are undertaken on the assumption that the combined company will have greater value than the two companies alone (Mirvis & Marks, 1992). Despite of this failures occur and the reason for it is, that although companies do consider financial and strategic questions in M&A, human resource questions are often ignored. The role of people and organizational culture is often placed in a marginal position, and most of the energy is invested in strategic and financial planning (Pikula, 1999).

The key element which determines a success or failure of M&A is how well incongruities in the two organizational cultures are managed. Organizational culture is comprised of patterns of shared beliefs and values that give the members of an institution meaning, and provide them with the rules for behavior in their organization (Dess & Davis, 1984). The culture is not generally recognized within organizations, because basic assumptions and preferences guiding thought and action tend to operate at a preconscious level (Sathe, 1985). Still, this preconscious level influence numerous aspects in the company, along with performance, teamwork, decision making, government, communication, commitment, perception and justification of behavior.

M&A can be frightening for workers and cause anxiety and stress. Cartwright and Cooper (1993) found that under M&As managers had significantly higher abnormal mental health scores than the normal population and a higher percentage of the acquired corporation's managers had scores comparable to or higher than psychoneurotic outpatients. Schweiger & Ivancevich (1985) mentioned that among common merger stressors usually are uncertainty, insecurity, and fears concerning job loss, job changes, job transfers, compensation changes, and power, status, and prestige changes (Schweiger & Ivancevich, 1985). They can cause organizational consequences such as nonattendance, poor performance, and higher employee turnover.

Hunsaker and Coombs (1988) found distinguishable patterns of emotional reactions employees are facing with during a M&A; they have named this phenomenon the merger-emotions syndrome. Figure 10 illustrates the sequence of emotions and different stages as the syndrome progresses. The stages are downswings, plateau and upswing.



**Figure 10.** *Stages in the merger-emotions syndrome (Pikula, 1999).*

The inertia of organizations and people during M&A is often underestimated. Resistance causes a delay on the way to success. The integration of two companies takes a certain period of time. Although the speed of integration is often seen as one of the most critical success factors, the ease of integration is underestimated (Steger & Kummer, 2007). Organizational changes are often predicted to happen quicker and easier than they actually do. There is an optimism bias with regard to expected speed and success to realize desired aims (Buehler et al. 1994). People especially think that desired changes are more profound and easier than is feasible, and they overestimate their capabilities in an array of fields and are not aware about this fact (Kruger & Dunning 1999).

The thorough changes required for success are more complex and take much longer than is initially assumed. For years to come, the organization remains split in two separate groups – the former employees from company A and those from company B, and these labels survive (Steger & Kummer, 2007). Being superior in almost all areas – cost effectiveness, human resources, size and sales, gives more power to the acquirer and their management.

Post-merger integration carries a great number of risks associated with people and organization. First, in M&A deals most firms persistently focus on the risks and liabilities of existing businesses, but there are also issues related to the people side of the businesses that are frequently missed or overlooked. One of the most important areas in this regard is pension and other rewards liabilities (KPMG, 2011).

Second, the practices of a merged company can be successfully realized if from the very beginning of the transaction the company has a strong organization in terms of procedures, control methods, measures, and employees. The absence of good design, on

the other hand, can result in ambiguous goals, lack of role clarity, and inefficient decision making, all potentially disastrous to a successful integration (KPMG, 2011).

Third, in any merger there is always a risk of losing key people and typically the people most wanted to be kept in company are at the highest risk to leave (Whitaker, 2012). An M&A can form circumstances in which a company is at risk for losing just those people who may be critical to short- and longer-term business objectives due to their organization skills, knowledge of business systems and processes, and intellectual capital.

Finally, a company's culture comprises the fundamental values, beliefs, and practices that determine a company's management philosophy. The dissimilarity in cultures of merged companies may influence the integration process as well as its effectiveness in value creation causing polarization, negative evaluation of counterparts, anxiety and ethnocentrism (Sudarsanam, 2003).

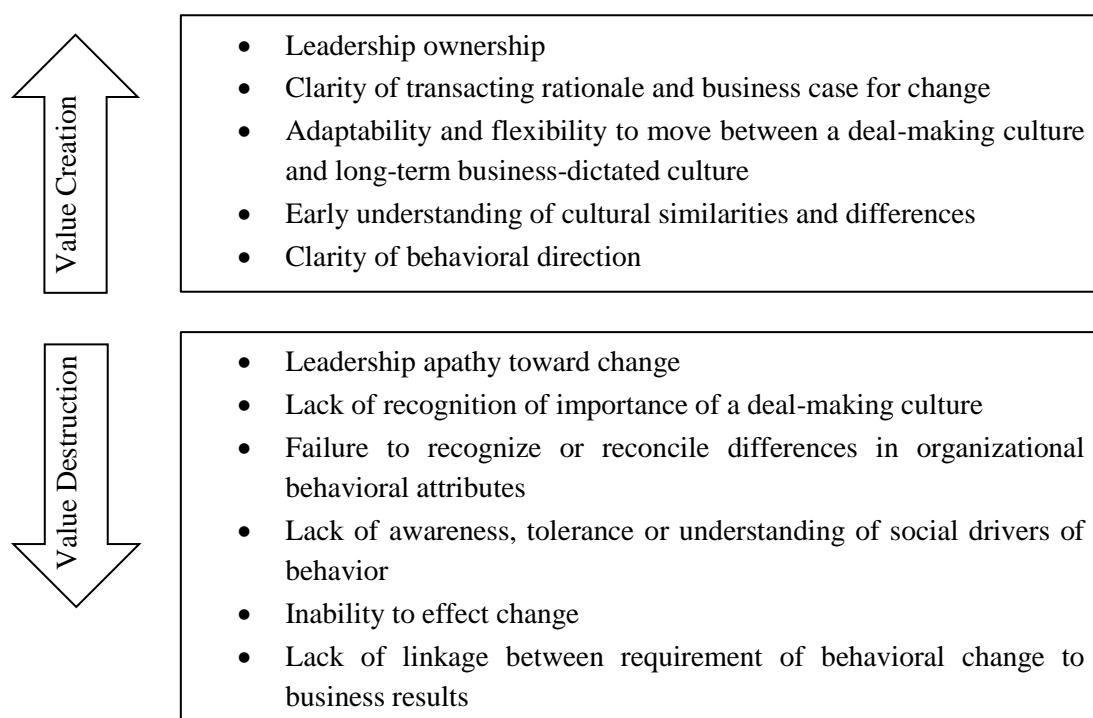
Most of M&A risks can be grouped into six broad categories, namely, people cost risk, structure risk, talent risk, culture risk, regulatory risk and engagement risk (KPMG, 2011). As it is illustrated in Table 5 each risk category may contain several dimensions.

**Table 5.** *Key people and organization related risks (KPMG, 2011).*

People Cost Risk	Structure Risk	Talent Risk	Culture Risk	Regulatory Risk	Engagement Risk
<ul style="list-style-type: none"> <li>• Pension and benefits</li> <li>• Rewards liability</li> <li>• Retiree medical</li> <li>• Jubilee payment</li> <li>• Accrued unused vacation</li> <li>• Healthcare cost</li> <li>• Contracts liability</li> <li>• Termination indemnities</li> </ul>	<ul style="list-style-type: none"> <li>• Work structure risk</li> <li>• Right sizing risk</li> <li>• Information flow risk</li> <li>• KRA-re-definition</li> </ul>	<ul style="list-style-type: none"> <li>• Key talent retention</li> <li>• Harmonizing talent processes</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership style</li> <li>• Decision making process</li> <li>• Change receptiveness</li> <li>• Work styles</li> <li>• Personnel interactions</li> <li>• Belief around personal success</li> </ul>	<ul style="list-style-type: none"> <li>• Employment contracting</li> <li>• Labor law agreements</li> </ul>	<ul style="list-style-type: none"> <li>• Employee motivation levels</li> </ul>

After announcing an M&A deal the productive value of the organizations in most cases goes down. In the best scenario, it decreases while employees begin to talk about the deal, then increases when they go back to work. But more often, the productive value of an organization will significantly lag, potentially for a long time, as employees try to figure

out what the deal means to them (Bundy, 2007). The lag will occur in such areas as corporate functions, IT functions, salesforces, customers and executive leadership. Bundy (2007) argues that there are factor able to influence value creation. They are demonstrated in Figure 11.



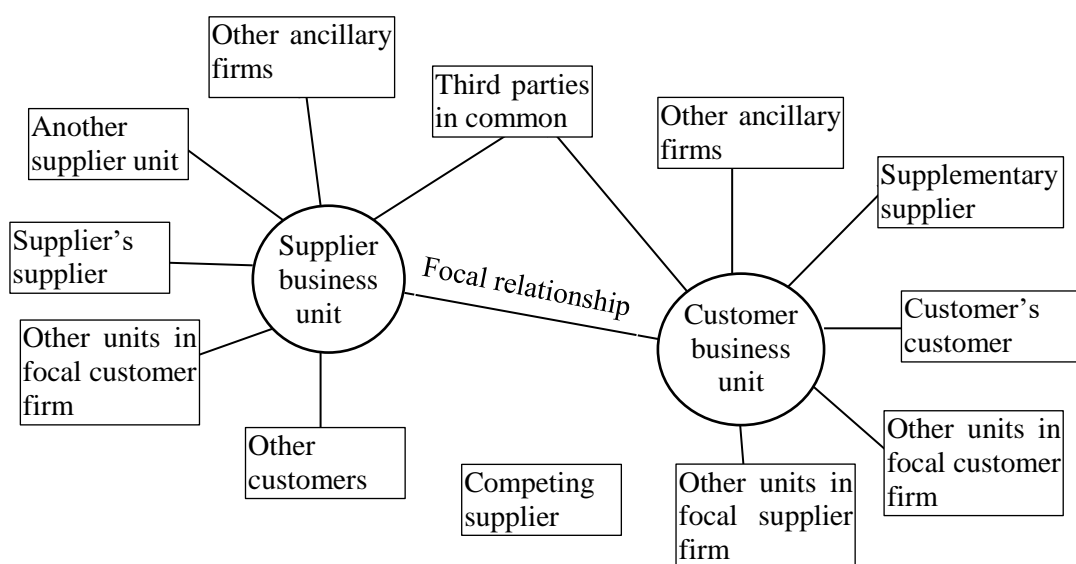
**Figure 11.** Factors influencing value creation during M&A (Bundy, 2007).

The primary reason that cultural differences, if not uncovered and addressed, can affect the value of the deal is that cultural differences often spell decreased productivity, which leads to lower revenues and income, and hence the combined entity may be worth less than expected (Sherman 2006). And if the deal is a fruitful one, value generation should start to increase and eventually deliver superior value than the two companies would have done independently, which is usually the reason for making the transaction. Bundy (2007) determines three ways exist in which characteristics of organizational behavior can be either value creators or value destroyers: compatibility with a deal-making culture, compatibility among joining organizations and compatibility with the “new” culture required to make the new organization successful.

During M&A the consolidation of two companies implies great organizational changes. Post-merger period is usually characterized by weakening of the position of newly established company in the market. This transition time requires skillful management of the organization in order to put the operation back on track. The duration of the transaction period will determine whether the deal was successful or not.

Companies interact with a market because they have something that is required by other actors in the market and/or they interact with the market because they need something provided by other actors in the market (Holtström, 2000). Firms are not able to operate as separate entities. A company has relationships mainly with two types of units: actors that act as resource providers (suppliers of different kinds) and actors using a resource (customers of products or services) provided by the company (Håkansson, 1994).

In B2B settings dyadic relationships between companies are extremely important. While interorganizational theory (Aldrich, 1979; Pfeffer & Salancik, 1978) has been advancing, the attention of business studies has been dragged from the viewpoint of the single company to take into account the interaction between several companies. Multiple studies have been conducted to study the relations between organizations in order to increase the understanding of a market form (Powell, 1990), of distribution systems (Elg & Johansson, 1992; Reve & Stern, 1979), of industries (Porter, 1991) and of transactions (Williamson, 1980). Emerging practice strongly suggests that to understand these business relationships, greater attention must be directed to the business network context within which dyadic business relationships take place (Anderson et al., 1994). Figure 12 demonstrates the environment in which companies operate. The context for two companies in a focal relationship is to be found in the parties connected to the focal firms, who are described as the respective companies' suppliers and customers, and third parties in common (Anderson et al., 1994).



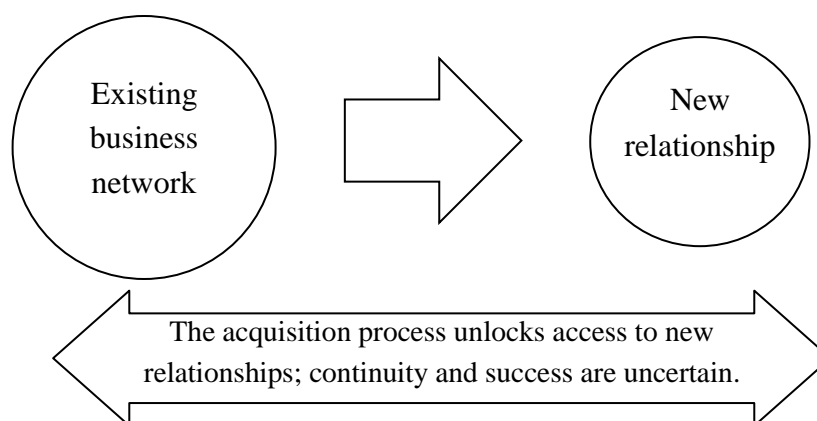
**Figure 12.** *Connectivity of companies in a dyadic relationship (Anderson et al., 1994).*

Due to interaction between companies a relationship is developed between them, and relationships are social exchange processes where trust is of the utmost importance (Håkansson and Östberg, 1975). Building relationship with other networks is as vital for a firm as having a strong position in the network they are part of. Relationships is a

dynamic concept, they cannot be established once and forever. Companies react to changes in the network (Axelsson, 1992). Long-term relationships are characterized by reciprocal adaptation and commitment. For example, the two parties may adapt to each other technically, logistically, administratively or financially (Hallen et al., 1991).

Forming up good business relationships is a complex long-term process in which future expectations of both parties play an important role. Companies may make market investments by committing resources in specific relationships, creating in this way important market assets for future use. Firm's relationship with its customers is a key driver of firm performance in B2B markets (Evans & Laskin, 1994). The customer–supplier relationship has been shown to be one of the primary determinants of customer loyalty (Rauyruen & Miller, 2007), which in turn drives a supplier's performance in terms of share-of-wallet and ultimately market share and profitability (Rust et al., 1995).

With regard to time prospect relationships are seen to be created over time, and former times and future expectations of the partners are seen as influencing the relationship (Anderson et al., 2001). Changes in the customer-supplier relationship occurring after M&A are of the key importance for companies taking part in the deal in B2B markets. Through M&As corporations aim sometimes to extend business network. Still, as it is illustrated in Figure 13, when acquiring the target company the acquirer does not necessarily get business relationship of the latter. The potential positive economic gains from acquired business connections depends upon the willingness to develop and exploit the existing customer and supplier relationships (Anderson et al., 2014).



**Figure 13.** Relationship buying process (Adapted from Anderson et al., 2014).

While through some M&As companies obtain new customers and expand market area, others results in lowering customer trust and support, which eventually leads to losing customers. In order to avoid the latter it is very important for managers to identify the key persons at both ends of the relationship (Anderson et al., 2014). In addition, they have to pay attention on finding the correct assessment norms and measures for a partner and

recognizing when and how the combination of the organizations affects suppliers and customers.

Foundation and development of business connections is a resource intensive process, in which actors can invest in different ways. Therefore, established relationships form an important asset for any company, and as far as acquisitions are concerned, it becomes a central issue to what extent these market assets are transferable (Johanson & Mattsson, 1985). The result of any merger is determined by whether existing business relationship can be passed. Moreover, the way acquisition is perceived by both parties plays an important role, as well as the effect of acquisitions on their will and capacity to continue their interaction.

Acknowledgement of connectedness and external relations offers important managerial implications in the case of acquisitions (Anderson et al., 1994). Harrison (2013) provides an analysis of how companies experiencing M&A allocate their resources, which is shown below in Figure 14.

<p><b>Most over resourced</b></p> <p>↓</p> <p><b>Most under resourced</b></p>	<b>Operational issues</b>	<ul style="list-style-type: none"> <li>• Rationalizing processes</li> <li>• Linking IT/system support</li> </ul>
	<b>Employee issues</b>	<ul style="list-style-type: none"> <li>• Stabilizing the organization and addressing key employee issues</li> <li>• Selecting and retaining the best skills from each organization</li> </ul>
	<b>Customer issues</b>	<ul style="list-style-type: none"> <li>• Retaining and transitioning customers</li> </ul>

*Figure 14. Resourcing of acquisition and merger activities (Harrison, 2013).*

As it is demonstrated in the figure, during M&A companies spend much less resources on customer issues comparing to employees and operational issues. Although the acquirer usually intends to get customers of the acquired company, problems with customers are often overlooked. Accordingly, management should shift focus away from the way the organization allocates and structures its internal resources and direct them towards the way it relates its own activities and resources to those of the other parties constituting its context (Hakansson & Snehota, 1989).

### 2.3. Customer in M&A

Customers are directly associated with value creation for the firm and therefore should be viewed as one of the key stakeholder groups of M&A. Kelly et al. (2003) claims that market-related motives drive the majority of M&A and customers are vital for goal achievement. This is confirmed by Spencer (2004) and Öberg (2013) who state that the

capability to attract and keep customers is a main precondition for a company to survive and grow. Researchers who investigate loss of customers following M&A offer additional evidence to client importance. Watson (2007) argues that the loss of main clients is considered one of the most common characteristics of unsuccessful acquisition. This is supported with quantitative study of Ryden (1972) who found out that a client loss rate following acquisition ranges from 25 to 50%. Also, according to Bekier & Shelton (2002) there is a substantial risk of losing clients during M&A if marketing questions are left neglected.

Anderson et al. (2001) stated that it is commonly considered that after the M&A transaction the market situation of the acquired company can be undoubtedly taken over and internal matters have a main influence on successful M&A outcome. Nevertheless, Anderson et al. (2001) highlights that supplier and customer relationships are not always as easily managed as it is considered. According to Öberg (2008) although M&A deal offers to the acquiring company an access to new brands and additional customer base, it does not guarantee upcoming revenue from these brand names, or a complete retention of customers.

Allotting a considerable amount of attention to communication with customers from the very start of M&A process helps to decrease uncertainty and lower customer leaving rate (King & Taylor, 2012). Firms that devote time and resources to conveying commitment to their customers and make allowance for their perspectives during M&A process are more likely to succeed in M&A outcome (King & Taylor, 2012). On the other hand, the inability to address customer effects and ensure proper communication with them allows rivals to benefit from M&A deal by framing customer perceptions and attitudes (King & Taylor, 2012). According to Homburg and Bucerius (2005) competitors at times even encourage the anxiety among customers of M&A partners, with the aim to gain advantage by separating them.

Customers influence and respond to the outcome of M&A. The idea of clients as influencing the performance is supported by Anderson et al. (2001) who claimed that a difference between intended outcomes and unexpected outcomes occurs because the consequence of a M&A is partly reliant on planned intentions and partly on unexpected reactions from others. An illustration of the former is the potential of using a strong brand name to modify the customers' perception of an existing product (Capron, 1999).

Viewing the customer as someone who may be affected by, but also may affect the M&A activities is one of the bearing thoughts in the recently published studies where M&A are viewed from a network perspective (Öberg & Anderson, 2002). The authors categorize the views of how customers are perceived in M&A into three main groups:

- Instrumental,



- As objects, who may be influenced by the merger/acquisition,
- As subjects, who influences the merger/acquisition and the outcome of the M&A activities.

In the instrumental approach the customer is viewed as a trade able asset, which will remain unaffected by the merger or acquisition (Öberg & Anderson, 2002). This implies that the clients can be relocated from one company to another. When assessing the performance of a merger or an acquisition, market is often exploited only to picture the partner companies and explain how much their markets are interrelated. However, for example, Ramaswamy (1997) claims that contrasting mixes of customers negatively influence performance.

Customer can also be viewed as an object, which is subjective to the changes happening after a merger or acquisition. For example, the monopoly theory, which goal is acquiring market power, could be seen as influencing the customers in two ways: fewer choices available for customers, or the wealth transfer from customers (Trautwein, 1990), e.g. following increased prices.

The third approach to managing customers in M&A, is to perceive them as impacting the M&A activities. When a business partner is affected by a merger/acquisition, it would only be natural to expect the business partners to perceive the event and eventually react to it (Öberg & Anderson, 2002). When Capron (1999) described the opportunity to modify customers' perception of an existing product, the usage of the acquired/acquiring company's brand name for other products has an advantageous effect on the customers. Nevertheless, Hayward (2002) argued that acquiring a competitor, will not automatically lead to larger market share. The other rivals can launch a more appealing product, and thus attract the customers, or the loss of customer focus during the integration phase (Tetenbaum, 1999) may incite customers to change supplier.

Looking at the customer as at someone who is both influenced by and influences the M&A activities is one of the core thoughts in network theories (Öberg & Anderson, 2002). Haunschild (1993) and Havila and Salmi (2000) point out that the majority of current theories do not take into account the social context that a company is involved in.

Haunschild (1993) predominantly gives attention to the way a company's social setting affects the decisions to acquire another company. In Beckman and Haunschild (2002) and Palmer and Barber (2001), network is claimed as a ground for interorganizational learning and the emphasis is on how a company's network effects decisions about acquisitions.

Further in-depth analysis of the literature about the role of customer in M&A reveals in total five variants of customer perception during transaction, which are demonstrated in Table 6.

**Table 6.** *The ways customers are viewed in M&A.*

<b>Role</b>	<b>Description</b>
Transferable asset	The customer base is considered as a transferable asset which is acquired together with other target company's assets (Fogg, 1976; Anderson et al., 2001; Pavlou, 2003).
Additional criterion	Clients are termed as an additional criterion to include in target company's assessment (Scheig & Perrone, 2004; Mirvis & Marks, 1992).
Victim	According to Barriger (1968), Stillman, (1983) and Feea and Thomas (2004) M&A deal often decrease or even eliminate rivalry, creating monopoly situation for M&A parties. Meanwhile Moorman (2008) states that clients may suffer considerably from the changes in sales personnel after M&A. Koskinen and Hilmola (2008), support the idea by stating that clients may face with increased complexity in distribution processes after M&A. Want (2003) in turn argues that some customers may experience difficulties due to lower quality of products and services caused by cultural clashes.
Initiator	Goldman et al. (2003) points out that becoming common preference for completely integrated services can lead supplier to M&A. This is in line with Zofnass (1998) who views customers' interest concerning one-stop shopping as one of M&A motivations.
Stakeholder	Many previous studies see customers and suppliers as groups of stakeholders that should only be informed about the potential consequences of the M&A deal (Öberg, 2013)

The reaction of customers on supplier's merger or acquisition varies, and scholars distinguish three types of typical customer behavior. The first kind of reaction described by researchers encompasses expressing a high sense of uncertainty and distrust. Jaju et al. (2006) support this idea by pointing out at the confusion the clients face with during brand and strategy integration. In addition, according to Homburg & Bucerius (2005) disturbance and anxieties about the business outcome in terms of prices, product and service quality and contact people are frequent reactions among customers, particularly if the acquirer fails to communicate its future plans. These is in line with Watson (2007)

who claims that insecurity among customers is enhanced by a lack of timely answers to the following questions:

- How does acquisition impact me and my position in marketplace?
- How will this acquisition impact my competitors?
- Will supply or price change?
- Do I have to renegotiate existing contracts?
- Will my relationship with the supplier change?
- Do I need to search for a new supplier?

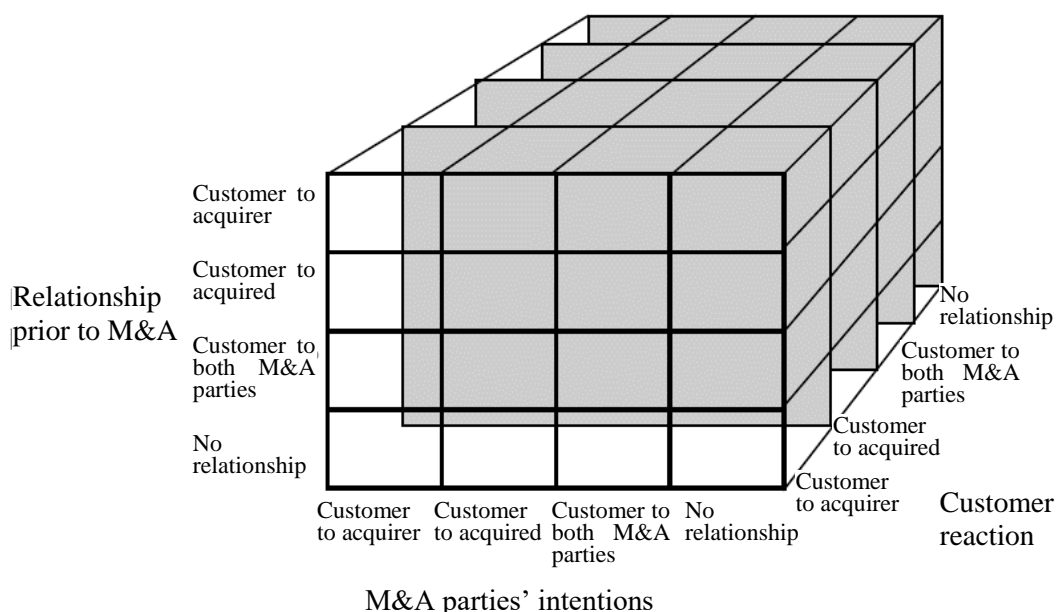
Consequently, customer detachment and denial are common reactions during M&A (Reichheld & Henske, 1991; Zollo & Meier, 2008).

The second form of reaction implies actions performed by customers after the M&A. Anderson et al. (2001) and Öberg (2008) in their studies emphasize that maintaining positive business relationship with customers after M&A is a costly and time-consuming process, which is often overlooked by M&A participants, as it is more comfortable to assume that clients will not change their buying behavior after the acquisition. Nevertheless, Öberg's (2008) research delivers counterarguments to this hypothesis. During her exploration work Öberg (2008) studies customer responses by analyzing changes in their buying behavior after the M&A deal. Öberg (2008) found out that customer response on acquirer's cross-selling objectives were prevailed by non-reaction – customers did not modify their purchase behavior to M&A parties' objectives. Öberg (2008) stated that insecurity and disbelief in the positive aspects of the M&A as the main reasons for customer non-reaction. On the other hand the empirical study conducted by Kato & Schoenberg (2013) proves that the client buying behavior can be influenced by post-merger activity both positively and negatively. The authors argue that post-merger activities effect key customer variables such as perceived worsening of quality of service and the variety of product/service assortment cause changes in customer loyalty.

Finally, Karim, et al. (2011) describes the worst-case scenario. Customers might react to M&A deal by leaving M&A participants and ruining transaction's planned outcome.

M&A partners may take an effort to make change in customer relationships after the M&A. For instance, the acquirer might want to obtain customer relationship of the acquired company. However, in order to achieve this the intention has to be in harmony with customers' perspective. Öberg (2008) argues that customers may respond in a manner that is different from these intentions and still create change of relationships, even though in direction other than it was planned by the M&A partners. Thus, although an acquirer may purchase a firm in the objective to change customer relationships, but for anticipated but doubtful dissolutions, it cannot realize such a change alone, while client

responses to the M&A may suddenly cause a change (Öberg, 2008). In other words, the individual contribution to change is asymmetric; M&A participants by themselves cannot cause relationship change, however customers as reactors can. Figure 15 represents the dimensions of change, in which change solely appears in the depth dimension.



**Figure 15.** Dimensions of change after M&A (Öberg, 2008).

Halinen et al. (1999) points out that M&As are activators for radical changes and in literature on relationship termination, M&As are mentioned as a reason to end relationships (Tähtinen et al., 2000). Responses are still not only a search for starting or terminating relationships (Ford, 1980; Halinen, et al., 1999; Dahlin et al., 2003). Öberg (2008) supports the idea claiming that after the M&A announcement most customers did not start or terminate current relationships to the M&A participants. Instead incremental changes may happen in the relationship. According to Håkansson (1982) incremental change means that relationships continue but their quality may change, e.g. in terms of closeness and distance, frequency or content. Consequently, based on customer responses Öberg (2008) distinguishes the following relationship outcomes:

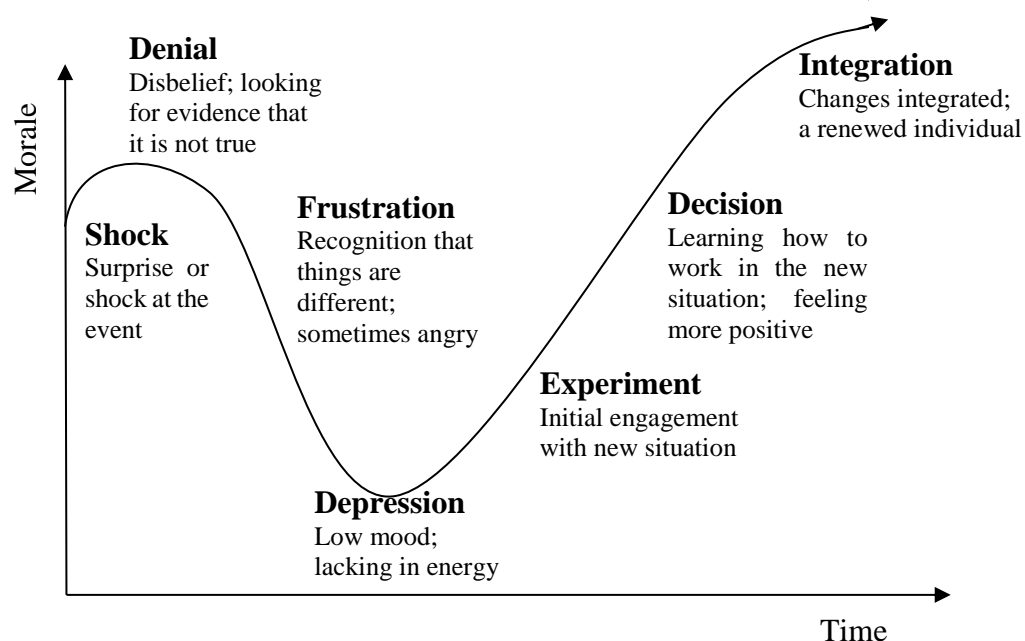
- a non-change of relationships,
- a change in relationships,
- a disruption of relationships, and
- an establishment of new relationships.

Although customer reaction on M&A may be influenced by other customers, supplier-customer relationship is dyadic in nature, and during M&A planning process individual relationship have to be considered (Öberg, 2008).

## 2.4. M&A as a Destabilization Point

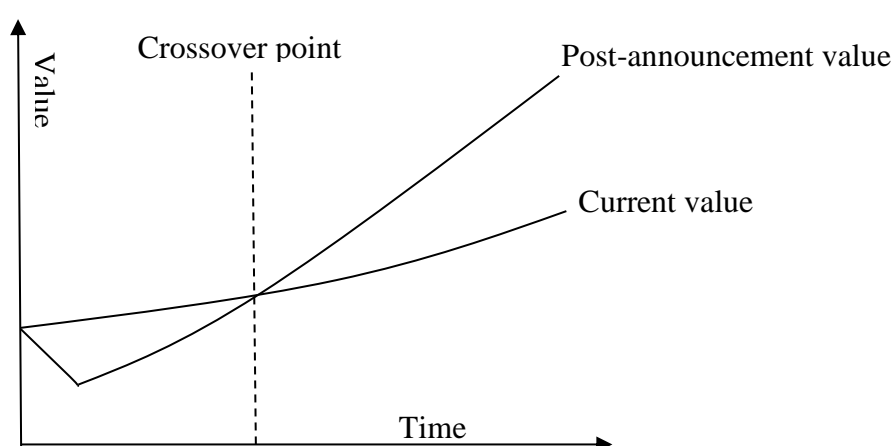
The M&A literature points out on the fact that the reactions of customers on supplier's merger or acquisition is often rather negative than positive. Customers usually experience a high level of insecurity and disbelief. Jaju et al. (2006) states that brand and strategy integration during M&A make customers confused. Homburg and Bucerius (2005) support the idea taking about customers' disturbance and worries about the business outlook in terms of prices, product and service quality, contact persons, especially if the acquirer does not allot proper attention to communication. This is in line with other scholars who claim that customer abstinence and rejection are not uncommon responses during M&A (Reichheld & Henske, 1991; Zollo & Meier, 2008).

Scire (2005) describes psychological aspects of human perception of organizational change. The author applies the model of extreme personal change proposed by Kübler-Ross (1969) to change in organization. Figure 16 demonstrates the sequence of emotions individual experiences during change. The curve, and its associated emotions, can be used to predict how performance is likely to be affected by the announcement and subsequent implementation of a significant change (Scire, 2005). It exhibits an initial growing severity of emotional response to change, making business performance to decrease incrementally over time. The process endures until the curve finally goes upward, with performance move stealthily back toward its finest level. This phenomenon can be applied to any type of change within the workplace, notably when systems and/or processes are being improved or replaced (Terrell, 2015).



*Figure 16. The Kübler-Ross change curve (Kübler-Ross, 1969).*

After announcing an acquisition or merger deal the productive value of the organizations in most cases goes down. In the best scenario, it decreases while employees begin to talk about the deal, then increases when they go back to work. But more often, the productive value of an organization will significantly lag, potentially for a long time, as employees try to figure out what the deal means to them (Bundy, 2007). The lag will occur in such areas as corporate functions, IT functions, salesforces, customers and executive leadership. One way to see how culture impacts the value of a deal is by studying the “value curve” demonstrated in Figure 17.



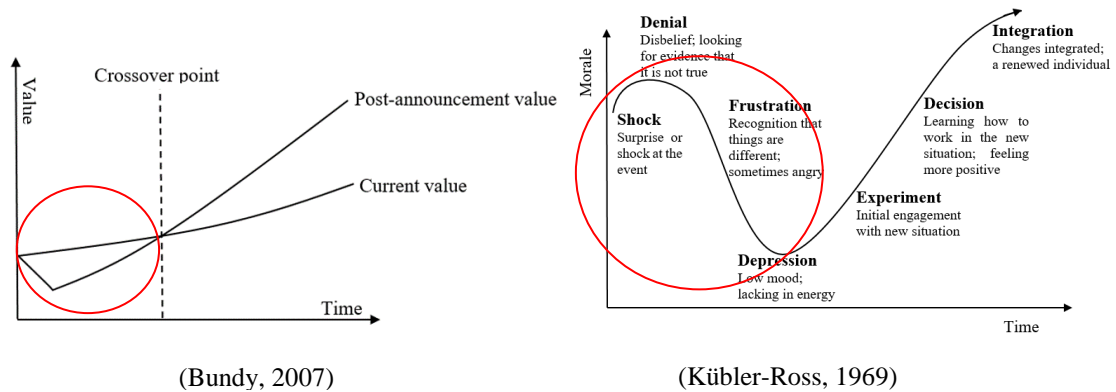
**Figure 17.** Value curve during M&A (Bundy, 2007).

Both Figure 16 and Figure 17 leads to the conclusion that supplier’s performance will decrease in case of merger or acquisitions. Bundy (2007) points out that until the supplier will reach crossover point the newly created company is unable to deliver the same value as it did before. In addition, the Kübler-Ross change curve (Kübler-Ross, 1969) demonstrates that employee’s morale of the supplier will be lower, which will also affect performance. Kübler-Ross change curve can be applied not only to the situation in merging organizations, but also to customer emotions. Consequently, the relationship between supplier and customer might worsen due to dual effect.

Meanwhile the failure to address customer effects and ensure proper communication with them enables competitors to take advantage of M&A deal by framing customer perceptions and attitudes (King & Taylor, 2012). Homburg & Bucerius (2005) suggest that competitors sometimes even bolster the anxiety among customers of M&A partners, attempting to gain advantage by disuniting them.

The Kübler-Ross change curve and value curve proposed by Bundy (2007) suggest that there will a certain period of time after a merger or acquisition, during which customers have many reasons to be unsatisfied with supplying partner. This is demonstrated in Figure 18. As a result, M&As create a beneficial environment for competitors to attack and intervene. Competitors might view M&As as a business opportunity and approach

customer with an attractive proposition. Dissatisfaction with current supplier might make even highly loyal and rigid customer open to new business relationship.



**Figure 18.** *M&A as a destabilization factor.*

As the merged supplier establishes new requirements and negotiates with customer regarding the current process or system, the latter might be reluctant to cooperate and show the signs of resentment. Faced with the knowledge that they may need to leave behind what is comfortable to learn a new system or process, many are likely to experience feelings of anger and pessimism (Terrell, 2015). As the project carry on, destructive emotions may increase with growing levels of annoyance toward contributing to a project they didn't ask for. In addition, the supplier experiences times when customer dissatisfaction can be indeed justified. If change is widespread across the whole organization, very little can be achieved during this period, because there is likely to be a sharp drop in motivation for all concerned, less loyalty and less diligence in performance (Wilson, 2008).

### 3. COMPETITIVE INTELLIGENCE

#### 3.1. The Concept of Competitive Intelligence

Globalization has boosted fierce competition among companies (Wright et al., 2009). Therefore, firms look for ways to attain competitive advantage (Weiss & Naylor, 2010). Competitive intelligence (CI) is a tool that provides a competitive advantage to companies and facilitates decision making (Fleisher & Wright, 2009; Haataja, 2011). CI developed from such areas as economics, marketing, military theory, information science and strategic management (Muller, 2006). Although various definitions of CI can be found in the literature (Weiss & Naylor, 2010) none of them have been irrevocably recognized (Roitner, 2008). Some of the definitions are demonstrated in Table 7.

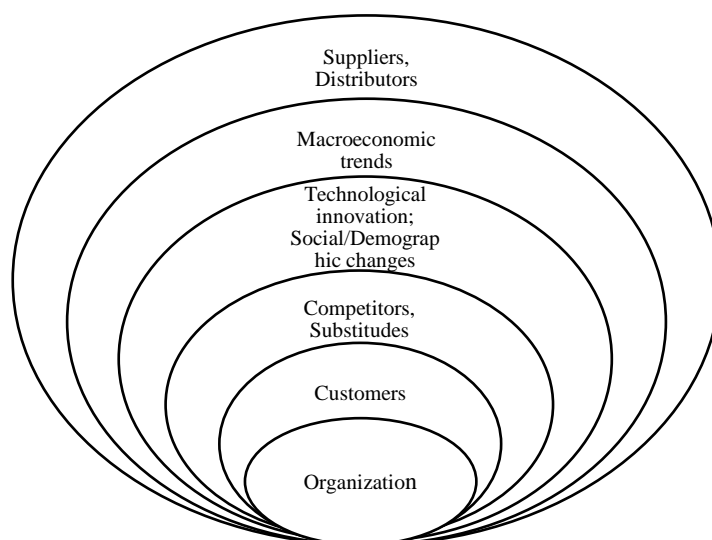
*Table 7. Definition of competitive intelligence.*

Definition of Competitive Intelligence	Author
The conversion of data and information, gathered by an organization from its external and internal environment, into intelligence that supports the organizational decision-making process.	(Santos & Correia, 2010)
The process by which organizations gather actionable information about competitors and the competitive environment and, ideally, apply it to their planning processes and decision-making in order to improve their enterprise's performance.	(Brody, 2008)
Any type of activity aimed at monitoring competitors (potential and current) and gathering information of all types, including about human resource practices, sales and marketing, research and development and general strategy.	(Tarraf & Molz, 2006)
Actionable information about the present and future behavior of competitors, suppliers, customers, technologies, government, acquisitions, market and general business environment.	(Vedder & Guynes, 2000)
The systematic process by which organizations ethically gather and analyze actionable information about competitors and the competitive environment and, ideally, apply it to their decision-making and planning processes to improve their performance.	(Fleisher, 2004)
A management discipline that enables executives to make smarter, more successful decisions, thereby minimizing risk, avoiding being blind-sighted, and getting it right the first time.	(Nikolaos, 2012)



The main purpose of CI is to support decision-making process and to strengthen company's competitiveness. CI is a way to inform companies continuously of changes in the competitive environment (Muller, 2005). Competitive intelligence literature points out the following objectives of CI (Cucui, 2009; Peltoniemi & Vuori, 2008; Wright et al., 2009): increasing the company's competitiveness; foreseeing, with a high level of trust, the business environment's development, competitors' actions, customer needs and even effects created by political change; backing up strategic decision-making process; enlightening opportunities and threats by capturing weak signs and early warnings; analyzing and joining data and information to generate knowledge and insights about rivals; fulfilling the information requirements of decision-making and problem-solving, and shortening reaction time; and developing marketing strategies.

A vigorous CI surveys the overall competitive landscape for an enterprise, giving opportunity to strategy-makers to detect new opportunities and mitigate strategic risks at the most favorable time. Moreover, it delivers insights that may reveal company's blind area. As organizations strive to become leaner to streamline costs, improve productivity, achieve greater operational efficiency and sustain competitive advantage, the CI serves as a catalyst for change, adding value to the top and bottom lines, when implemented correctly (Proviti, 2011). As demonstrated in Figure 19, illustrating the competitive intelligence universe, the process of gaining intelligence has to cover several elements, outlining the scope and area of research.

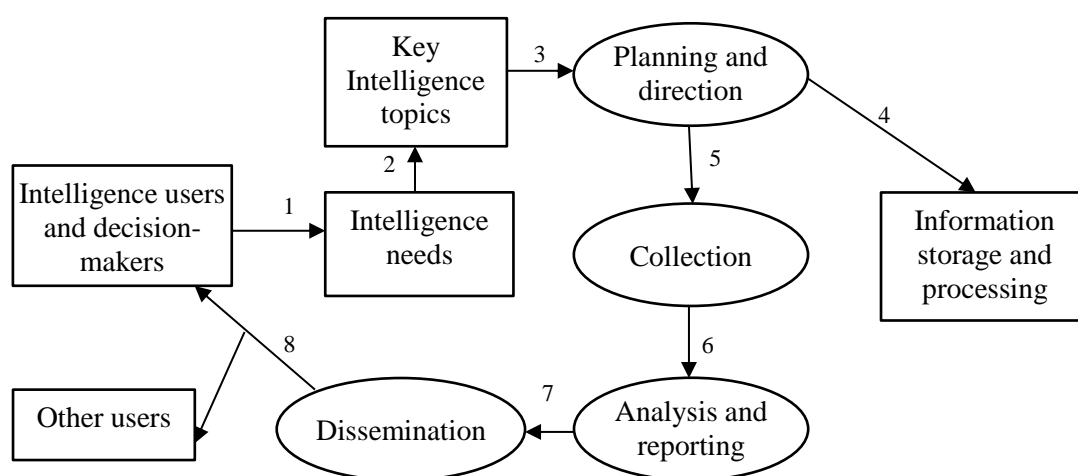


**Figure 19.** *The competitive intelligence universe (Proviti, 2011).*

Nevertheless, it must be pointed out that each of these elements will not affect in the same way enterprises with different business model in dissimilar industries. It is crucial for

decision-makers to recognize which of these elements effects more and has higher relevance to the company's strategy and make sure that competitive intelligence is directed appropriately. This understanding starts with identifying the sensitivity of the strategy to market developments such as interest rates, weather patterns, customer preferences, fuel prices and new technologies (Proviti, 2011).

The competitive intelligence process consists of a set of procedures and methods planned for collecting, analysis and representation of information for use in making marketing decisions (Fletcher & Deans, 1998). Although many scholars distinct only five phases of the CI process (Bose, 2008), Botha and Boon (2008) describe seven phases, which are demonstrated in Figure 20. First, decision-makers identify their intelligence needs and narrow down required intelligence area to key intelligence topics (KITs). The KITs are those topics recognized as being of highest importance to company's senior executives, providing objective and direction for competitive intelligence operations (Bose, 2008). During this stage, the CI manager determines and prioritizes intelligence needs for senior management and company as a whole. Furthermore, what the CI unit should research and to whom this intelligence should be conveyed are determined in this phase (Strauss & Du Toit, 2010).



**Figure 20.** Competitive intelligence process (Botha & Boon, 2008).

Second, with the aim to fulfil intelligence needs plans and direction are framed. This stage identifies the decision-makers' intelligence requirements, and for this reason, KITs must be clearly and unambiguously determined. The intelligence requirements must be transformed into information requirements in order to determine if the required information already exists or not (Pellissier & Nenzhelele, 2013). The steps to acquire the required information must be clearly outlined (Nasri, 2011).

After that, required information is collected from the external environment complying with ethical and legal regulations. The accent is on gathering publicly available

information (Botha & Boon, 2008), while complying with the code of ethics created by SCIP. The obtained information has to be applicable to the KITs. It can be collected from primary sources like government agencies, employees, suppliers, customers and conferences, as well as from secondary sources such as magazines, TV, radio, analyst reports and professional reports (Pellissier & Nenzhelele, 2013). Information can be collected through Internet searches, surveys, interviews, observation, media scanning and networking (Nasri, 2011).

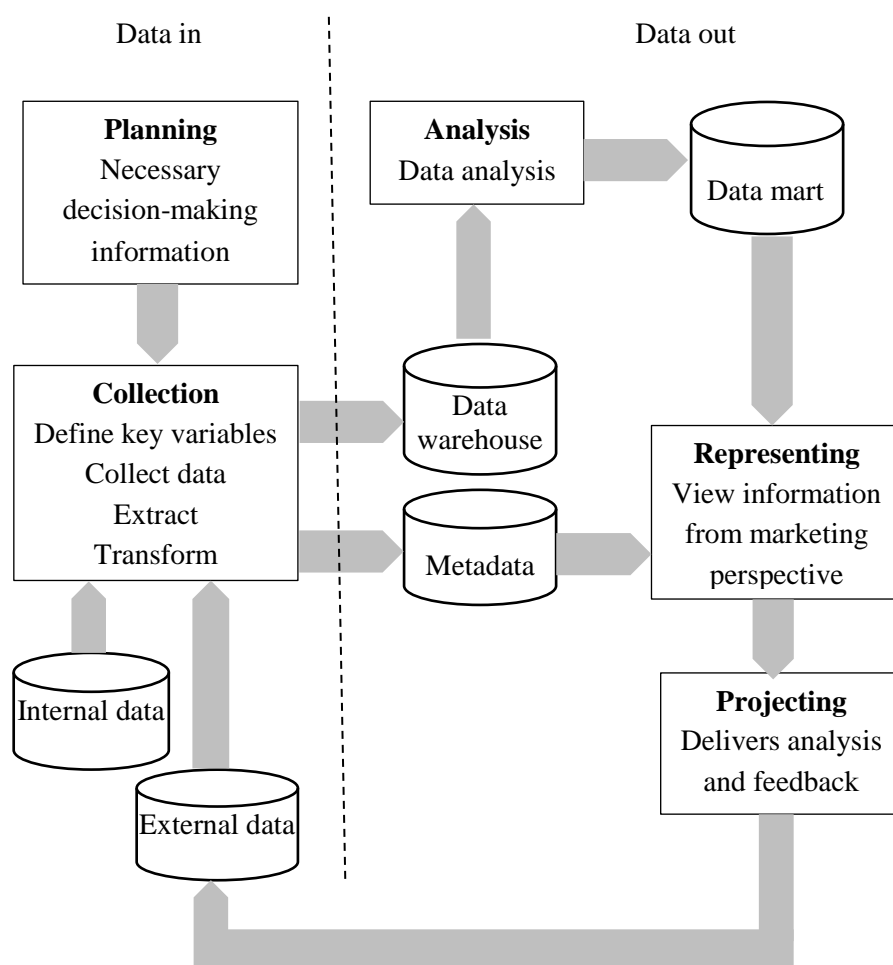
Next, the obtained information is processed and stored appropriately. This stage arranges, systematizes, implements and maintains a system of attaining and storing information (Pellissier & Nenzhelele, 2013). Gathered information is organized and stored in a database. Information stored in electronic format is easy to analyze and disseminate (Nikolaos & Evangelia, 2012).

Further in order to turn information into actionable intelligence analysis is conducted. This is the key stage of the competitive intelligence process (Viviers et al., 2005) and it is the most challenging (Nikolaos & Evangelia, 2012). For interpretation and analysis mostly such methods are used as PEST (political or legal, economical, socio-cultural and technological) analysis, scenario analysis, Porter's five forces model, SWOT (strengths, weaknesses, opportunities and threats) analysis and competitor profiling (Viviers et al., 2005).

Actionable intelligence is distributed to decision-makers. The finished product, is communicated back to the decision-makers in a format that is easily understood, usually in the form of a report, dashboard or meeting (Pellissier & Nenzhelele, 2013). Face-to-face, email and intranet communication are also used (Nasri 2011). The received intelligence can incentive new intelligence needs and the cycle repeats.

After processing received intelligence decision-makers take actions. In this stage, the decision-makers use actionable intelligence to make decisions (McGonagle & Vella 2012). This phase leads to the identification of new intelligence needs by users of intelligence and decision-makers and the intelligence cycle or process is activated again (Botha & Boon 2008).

Guarda et. al (2012) proposes another framework of the process of attaining competitive intelligence illustrating how data travels within the organization (Figure 21).



**Figure 21.** The process of attaining competitive intelligence (Guarda et. al, 2012).

The authors demonstrate in their framework the role of metadata. The metadata model describes fields, values, sizes, ranges, field's definitions, data owners, latency, and transformation processes (Guarda et. al, 2012). Metadata ensures transparency to final consumers as data travels from sources to the warehouse.

The process of gaining CI also can offer learning opportunities to CI professionals on how to carry on their diverse responsibilities. They get training on interpreting KITs, information collection, information analysis and intelligence dissemination (Pellissier & Nenzhelele, 2013).

### 3.2. Obtaining Market Knowledge from Online Sources

The growth of internet has revolutionized dramatically business and consumer behavior (Harter, 1999). Consequently, its usage as an alternative research tool is becoming more and more common. Using of internet has made it less costly and more quickly and easily to get information than ever before (Luo, 2009). Internet offers an opportunity to collect far more detailed information than traditional research methods.

From the point of view of creating a proficient marketing strategy, the web research at times enables to obtain masked data and offers better insights into sometimes concealed and unapproachable information concerning customers, their effect on business, customer behavior and purchasing decisions. It also offers an opportunity for businesses to create an image, communicate information about products and services, develop relationships with profitable customers, better understand the consumer buying practices and ensure continuous product improvements with respect to customers' needs (Kursan & Mihic, 2009). However, the perception of internet usage as a research tool varies. For instance, Karayanni (2006) conducted a study, in order to determine the purpose of the business usage of the internet and found that the important usage motivation is to distinguish oneself from the competition, which includes both marketing research and market expansion opportunities.

Comparing with other approaches, internet-based data collection methods are claimed to involve lower costs, faster turnaround, broader stimuli potential, and greater enjoyment (Forrest, 1999; Kehoe and Pitkow, 1996). In contrast, traditional marketing research is suffering from falling participation rate, rising costs, respondent fears concerning misuse of personal information and managerial issues resulting from the time taken to conduct postal surveys (Jarvis, 2002). Still, it displays some drawbacks of internet survey such as sampling difficulties, the complications with response rates and quality. When analyzing data collection techniques, it is important to note that there is a growing trend of administering the web-based data collection methodologies that have numerous advantages over other data collection approaches (Albrecht & Jones, 2009).

Non-representative of internet samples is one of the biggest difficulties of online data gathering. The cost and the amount of work can be enormous for fixing biased results. It is general belief that "the data collected would lead to good insights regarding the potential market, and the skewed demographics could be corrected by using statistical techniques to weight the actual responses to bring them in line with the demographics of the population at large" (Clarkson, 2000). However, this can be challenged by conducting more rigorous research procedures combining traditional and Internet research methods in order to obtain scientifically accurate online data results (Luo, 2009). This might help to significantly increase participation and representativeness. Clarkson (2000) also indicates that depending on the company and the respondents being surveyed, the Web-

based survey is not always appropriate. The company must assess its problem and circumstances wisely prior to using Internet survey to collect the data.

If internet is analyzed as an interactive marketing tool for market data collection and analysis, according to Sen et al. (1998), all data can be classified into three groups:

- data that are being automatically logged in websites,
- secondary data that are publicly available,
- data that the web users provided.

The first group comprises automatic recording of all visits and clicks via the log entries. Recorded data belong to the IP address that the user exploits, some faults that possibly happen while using the site, user's location, as well as the location that the user is heading to. These are only access data that are not sufficient for the marketing experts to create the strategy or customized offers, due to the fact that it is not obvious which users and how many of them accessed the website from the same computer/IP address (Luo, 2009).

Apart from registration entrees, web information associated with subscription and memberships of the website users is also obtainable. Openly accessible data refer to information reachable from the websites in a form of corporate reports (monthly, annually, etc.) that are provided free of charge and can be viewed on the corporate site. Information from the web visitors do not have to be immediately available because they require the visitors' consent based on their voluntary registration and the willingness to provide information (Luo, 2009). For this reason, the obtainability of such data depends exclusively on the visitor/customer.

Secondary data is information that have previously been gathered by someone other than the researcher and/or for some other purpose than the research project at hand (Burns & Bush, 2003). According to Crawford (1997) no market research study should be undertaken without a prior search of secondary sources, which is also termed desk research. To begin with existing secondary data may be fully suitable and sufficient to make conclusions, get the question answered or solve the problem. In some cases primary data collection merely is not needed. In addition, secondary data can be obtained much faster and at lower cost. Moreover, sometimes secondary sources of information represent more accurate data than that acquired with primary research. For example, a large-scale survey carried on by a governmental or large international organization most probably deliver more accurate results than a small private enterprise survey based on comparatively small sample sizes.

The sources of secondary data can be divided into internal sources and external sources. Internal sources comprise information which is collected and stored within company boundaries. External data is data that is collected by other people or organizations from

an organization's external environment (Grimsley, 2016). Some examples of internal and external sources of secondary data are demonstrated in Table 8.

**Table 8.** *Sources of Secondary Data (Grimsley, 2016).*

<b>Sources of Secondary Data</b>	
<b>Internal</b>	<b>External</b>
<ul style="list-style-type: none"> <li>• Profit and loss statements</li> <li>• Balance sheets</li> <li>• Sales figures</li> <li>• Inventory records</li> <li>• Previous marketing research studies</li> <li>• Information regarding transport operation</li> <li>• Storage data, such as the rate of stock turn, stock handling costs, assessment of the efficiency of certain marketing operations and the efficiency of the marketing system as a whole</li> </ul>	<ul style="list-style-type: none"> <li>• Government sources, such as: <ul style="list-style-type: none"> <li>· Population censuses</li> <li>· Social surveys, family expenditure surveys</li> <li>· Import/export statistics</li> <li>· Production statistics</li> <li>· Agricultural statistics</li> </ul> </li> <li>• Corporate filings, such as annual reports to government security</li> <li>• Trade, business and professional associations</li> <li>• Media, including broadcast, print and internet</li> <li>• Universities</li> <li>• Foundations</li> <li>• Think tanks</li> <li>• Commercial data services, which are businesses that provide data on request</li> </ul>

The marketing researcher who seriously seeks after useful secondary data is more often surprised by its abundance than by its scarcity (Crawford, 1997). Commonly, the researcher has made a conclusion from the start that his/her topic of interest is so exclusive or specific that a research of secondary sources is needless. Subsequently, the author makes only specified search without real expectation of sources. This kind of studies appear to be shortsighted and limited. Dillon et. al (1994) suggests that a researcher should never begin a half-hearted search with the assumption that what is being sought is so unique that no one else has ever bothered to collect it and publish it. On the other hand, he proposes to assume that there are existent secondary data that should assist in definition and scoping of the primary research.

While positive aspects of secondary sources are substantial, their limitations must be acknowledged. The reliability of the source and the quality of data itself should be accessed thoroughly. The main problems of secondary sources are categorized in Table 9 (Crawford, 1997):

*Table 9. Problems of secondary sources (Crawford, 1997).*

<b>Definitions</b>	The researcher should be careful, when making use of secondary data, of the definitions used by those responsible for its preparation. Some terms need careful handling. It should be noted that definitions may change over time and where this is not recognized erroneous conclusions may be drawn.
<b>Measurement error</b>	When a researcher conducts fieldwork she/he is possibly able to estimate inaccuracies in measurement through the standard deviation and standard error, but these are sometimes not published in secondary sources. The only solution is to try to speak to the individuals involved in the collection of the data to obtain some guidance on the level of accuracy of the data. The problem is sometimes not so much 'error' but differences in levels of accuracy required by decision makers.
<b>Source bias</b>	Researchers have to be aware of vested interests when they consult secondary sources. Those responsible for their compilation may have reasons for wishing to present a more optimistic or pessimistic set of results for their organization. For example, figures might be exaggerated or played down.
<b>Reliability</b>	The reliability of published statistics may vary over time. It is not uncommon, for example, for the systems of collecting data to change over time but without any indication of this to the reader of published statistics. Geographical or administrative boundaries may be changed by government, or the basis for stratifying a sample may have altered. Other aspects of research methodology that affect the reliability of secondary data is the sample size, response rate, questionnaire design and modes of analysis.
<b>Time scale</b>	Most censuses take place at 10 year intervals, so data from this and other published sources may be out-of-date at the time the researcher wants to make use of the statistics. The time period during which secondary data was first compiled may have a substantial effect upon the nature of the data.

It becomes more and more evident, that electronic information sources will in the end replace traditional printed sources. With the spreading of internet, gathering information from secondary sources is becoming more efficient and more effective. Computer-based information systems make possible to reach databases of four different types, like bibliographic, numeric, directories and full-text.

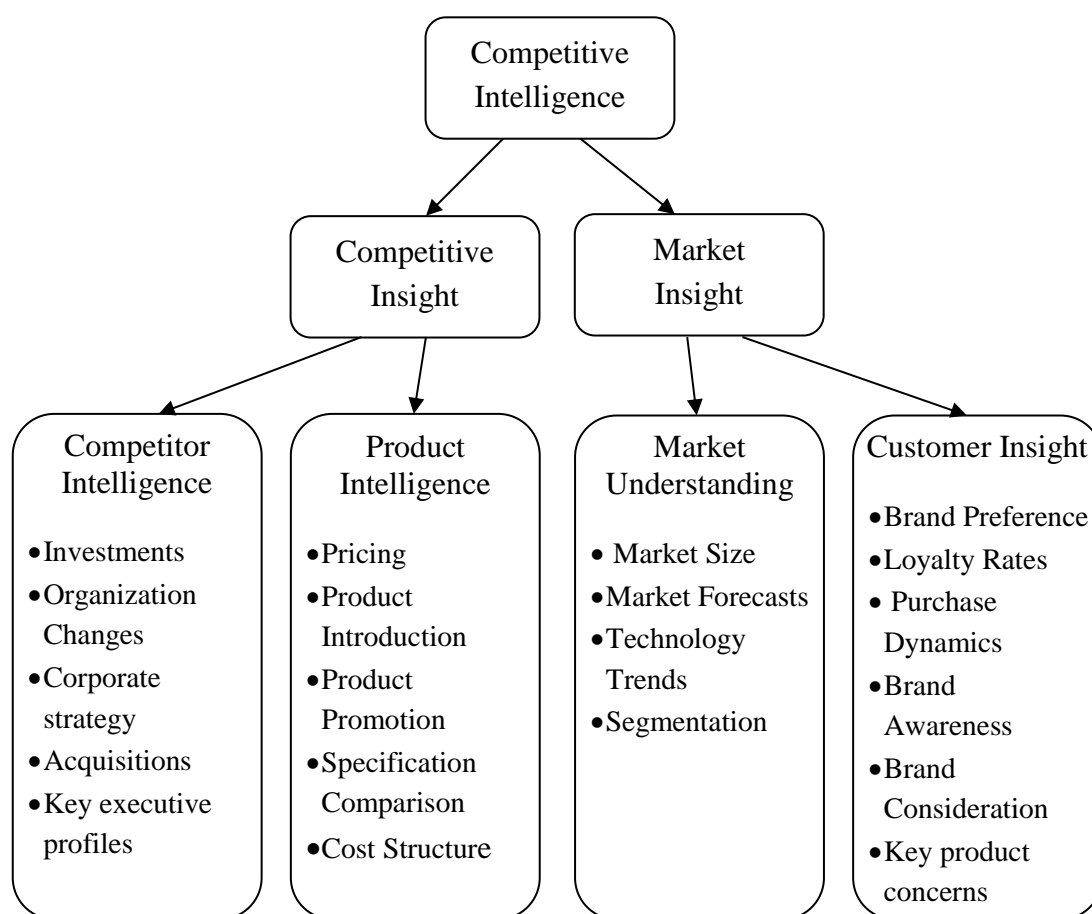


### **3.3. The Role of Competitive Intelligence**

The term of competitive intelligence, which is also named sometimes as market intelligence, is closely related to market research. Whereas market research involves solving a specific market problem at a specific point in time, competitive intelligence involves gathering information on a regular, ongoing basis to stay in touch with what's happening in the marketplace (Tanner & Raymond, 2012).

If company is not investing efforts in gaining CI, it may become vulnerable. CI provides the suitable level of detail, producing a coherent view of the competitive environment – informing about typical product lines, distribution channels performance, customer interests and chances, market share precise levels and so on – allowing to activate the competitive intelligence cycle, demanded by a more precise strategic question/problem to be solved (Jamil, 2013).

CI combines information from external and internal sources into a systematic intelligence process that serves decision-making with timely and accurate knowledge and helps them to capitalize on opportunities and avoid threats (Hedin et. al, 2014). The information face of the CI is built upon a foundation consisting of four basic areas: competitor information, product information, market information and customer information (Crowley, 2004). This is depicted in Figure 22.

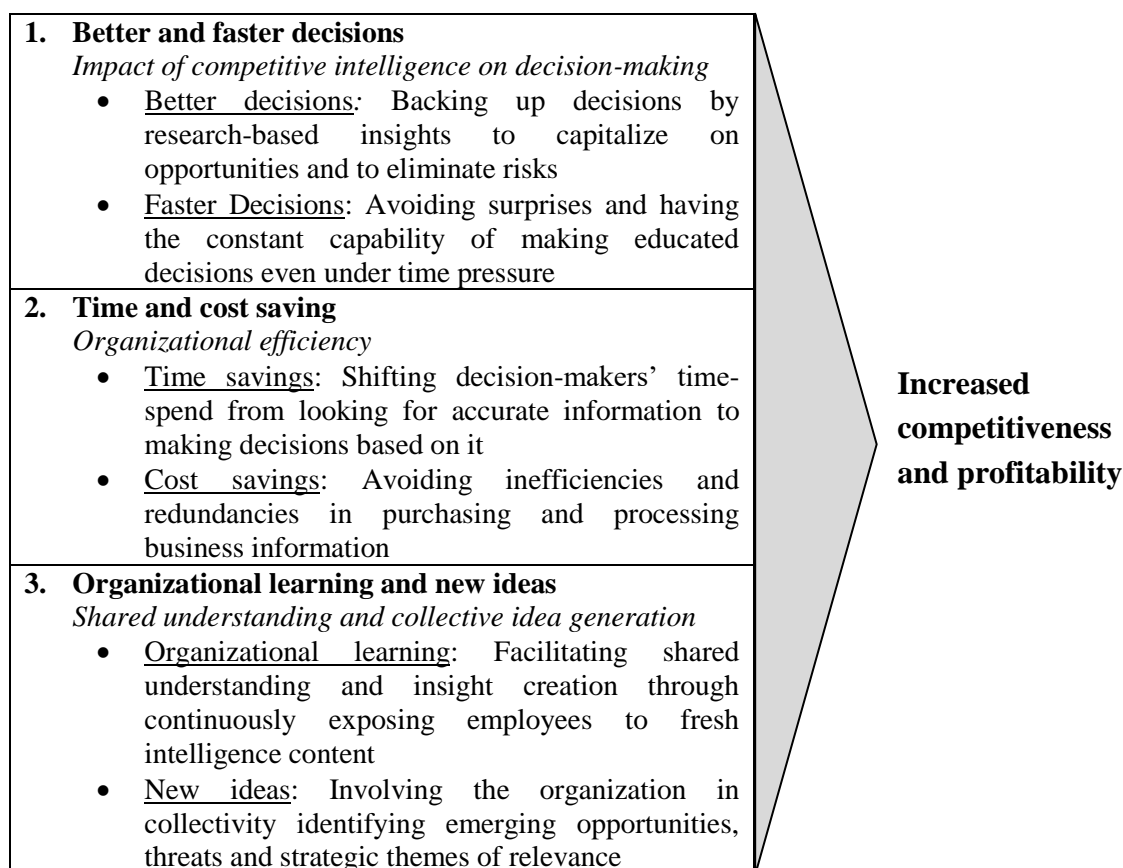


**Figure 22.** Information face of competitive intelligence (Modified from Crowley, 2004).

Product information implies an understanding of the products in the marketplace, pricing policy, and strategic marketing activities (promotions, advertising, etc.) exploited with these products. Competitor intelligence consists of the competency on competitors' strategies, company structure, product investment portfolio, and upcoming product perspectives. Market information encompasses a view of the market at a macro level including the current market size, market segments, market share trends, and the forecasted growth of the market and the respective market segments (Crowley, 2004). The last and most important part is customer insight (the classic core of market research) comprises complete understanding of customer preferences, drivers of customer behavior, brand loyalty, satisfaction rates and all other customer information that influence their behavior in respect to company's products or services. It is vital to signify that each of these parts of knowledge can be a distinctive discipline in and of itself. Nevertheless, the great potential of the information is in linking all these parts to create a comprehensive perspective on the market, the competitive intelligence perspective.

The majority of large companies all over the world have established systematic procedures for gaining CI. However, heads responsible for competitive intelligence still

often find it challenging to clearly communicate the hard and soft benefits that the investment in a corporate competitive intelligence program is expected to yield, especially at times when budgets are under scrutiny (Hedin et. al, 2014). The advantages of working systematically on competitive intelligence can be divided into three groups demonstrated in Figure 23.



**Figure 23.** *Benefits of systematic competitive intelligence (Modified from Hedin et. al, 2014).*

Gathering competitive intelligence involves a number of activities, including scanning newspapers, trade magazines, and economic data produced by the government to find out about trends and what the competition is doing (Tanner & Raymond, 2012). In big corporations, personnel in a company's marketing department are mainly in charge for their company's competitive intelligence and ensuring that it is passed to decision makers. Some companies provide regular news service by which they deliver to other firms information that can influence their operations.

Information collected for gaining competitive intelligence varies greatly in cost, availability and value. Information differs not only in type but also in level, alternating from easy to access public data to the harder to access in depth knowledge, which is called

field intelligence. Public data, like websites, are free and can often be collected more expediently than proprietary data (Mela, 2010). Usually, the harder data is to obtain the more valuable it is and the more benefits it delivers. Accenture (2014) gives an example of continuum of information in industrial context, which is illustrated in Figure 24.

	<b>Public Data General Free</b>	<b>Semi-Public information Project or subscription fee</b>	<b>Field Intelligence Infrastructure or partnership investment</b>
	Cost: Free or very low Ease: Easy to acquire Value: Generic; limited value	Cost: Moderate to expensive Ease: Moderate Value: Less Generic; more valuable	Cost: Expensive/High Priced Ease: Difficult, therefore expensive Value: Proprietary, high value
Supply Market Insights	<ul style="list-style-type: none"> <li>•Macro economic data (e.g., GDP, BLS)</li> <li>•Sector data (e.g., ISM report on manufacturing)</li> </ul>	<ul style="list-style-type: none"> <li>•Customer one-time industry/supply market research studies (done on paid consulting basis)</li> <li>•Synthesized industry-specific news and data (e.g., MetaMiner, The Plastics Exchange)</li> </ul>	<ul style="list-style-type: none"> <li>•Projections and Insights into M&amp;A, new technology innovations based upon in-market experiences</li> </ul>
Supplier Intelligence	<ul style="list-style-type: none"> <li>•Public marketing collateral (Website, RFx responses)</li> </ul>	<ul style="list-style-type: none"> <li>•Company profiles focusing on financials, structure and lines of business (e.g., Hoovers, Onesource)</li> <li>•Financial risk data and monitoring (e.g., Forseva, D&amp;B)</li> <li>•Diversity of MWBE status data (e.g., CVM)</li> </ul>	<ul style="list-style-type: none"> <li>•Private supplier database with qualitative capability and performance insight based upon multiple buyer/supplier relationships</li> </ul>
Cost, Price and Commercial Information	<ul style="list-style-type: none"> <li>• Public Indices for traded commodities</li> </ul>	<ul style="list-style-type: none"> <li>• Synthesized industry-specific news and data via paid subscription for commodities and other (e.g., MetaMiner, The Plastics Exchange, DisplaySearch)</li> </ul>	<ul style="list-style-type: none"> <li>• Price, range and commercial structure intelligence gathered from multiple sourcing efforts across same sub-category</li> </ul>
Contract Intelligence	<ul style="list-style-type: none"> <li>• Not available</li> </ul>	<ul style="list-style-type: none"> <li>• Niche negotiation/benchmarking services; niche contract analysis software tools</li> </ul>	<ul style="list-style-type: none"> <li>• Best in-class-terms and conditions developed from multiple contracting events across same sub-category</li> </ul>

===== Value =====>

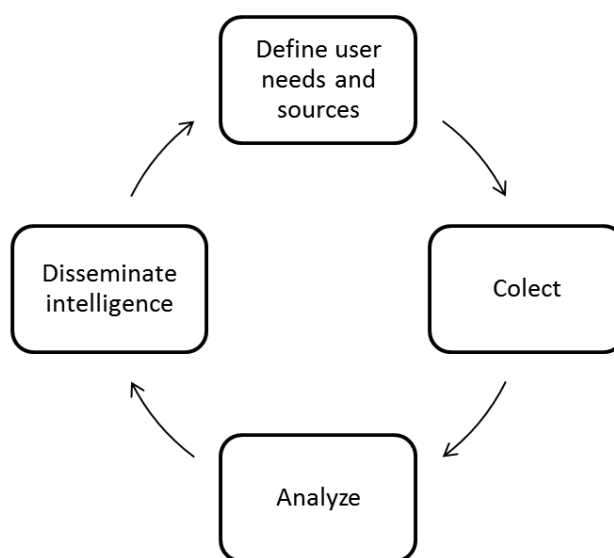
**Figure 24.** Competitive intelligence and access (Accenture, 2014).

Developing competitive intelligence is essential for business success. By keeping more focused; centering business goals on the consumer; collecting relevant, real information about what works and what doesn't; providing with the intelligence to pursue growth opportunities; and reducing risk, gathering market intelligence may be the most crucial element of executing effective plans for business's prosperity (Olenski, 2014).

### 3.4. Competitive Responses to M&A

M&A can be viewed by competitors as an opportunity to acquire potential customers. Nevertheless, in order to identify M&A and other advantageous changes in competitors' organizations the market has to be systematically and thoroughly monitored. It is important that marketing managers, marketing executive, marketing researchers and other personnel of a company attain proper knowledge about changes in the market environment. An alertness and sensitivity to the environment is an essential ingredient of business success, survival and longevity, because of the firm's dependence on it for resources inputs and services outputs (Igbaekemen, 2004). That is why companies should continuously work on gaining competitive intelligence. In this way any change and, thus, opportunities in market will not pass by unnoticeable.

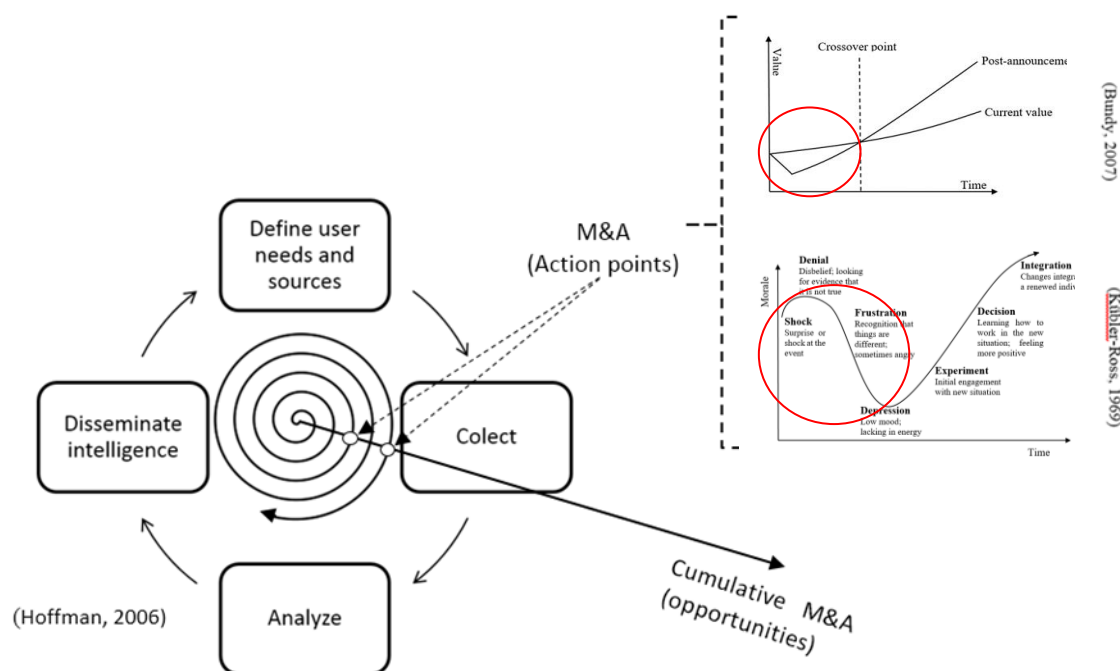
The process of gaining competitive intelligence is described by Hoffman (2006). He suggests that is consist of four sequential stages: definition of user's needs and sources, collecting information, analyzing and dissemination of gained intelligence. The process is shown in Figure 25 below.



**Figure 25.** *The process of gaining competitive intelligence (Hoffman, 2006).*

If to look at competitive intelligence process from the perspective of M&A identification and using them as opportunities, the company should carry it out continuously. The reason for it is that M&A happen in the market from time to time, commonly with quite long timespan between them. On the other hand, the benefits company can get when skillfully using the opportunity are significant. That is why looking for M&A on the market should be a part of company's strategy. The strategy should be clearly communicated to employees as the signs of coming changes in competitive company might be noticeable long time before the actual M&A occurs. Personal connections and attention to details can allow company to get information in advance and act proactively. Figure 26

demonstrates the framework of continuous competitive intelligence process with the aim to use M&As as business opportunities.



**Figure 26.** Continuous competitive intelligence process.

The systematic nature of gaining information about competitors is pictures with continuous spiral. M&A are showed as points on the spiral inceniting company to actions. The company should use the advantage of temporary customer dissatisfaction with current supplier and approach potential customer with proposition to cooperate. Low employees' morale and decreased value caused by changes is a thriving ground for new business deals. Obviously, the conditions of new partnership have to be attractive enough for potential customer to switch. The framework also demonstrates cumulative nature of opportunities M&A offer with time. It can be used as a strategic landmark for acquiring potential customers. The model is especially relevant for industries where supplier switches happen rarely, because of, for example, high switching barriers or long-term traditional personalized business relationship between companies.

## 4. M&A AS AN OPPORTUNITY

### 4.1. Customer Loyalty

Customers play the key role in creating company's profitability. Firms will achieve a higher profitability if they could secure and improve their customer satisfaction (Anderson, et al. 2006; Hallowell, 1996). Hallowell (1996) claims that the relationship between profitability and customer satisfaction is mainly bridged by customer loyalty. Hence, customer satisfaction is correlated with profitability indirectly by means of customer loyalty. Taking into account this connection, it can be concluded that customers play a vital role in shaping the future and survival of companies.

According to Oliver (1999) loyalty can be defined as a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thus a product is cyclically bought from the same supplier. Jaishankar et al. (2000) characterized loyalty as a product repetitive buying, positive reference, self-proclaimed retention, low reactivity to price fluctuation and confrontation against dissuasive arguments. Dwyer et al. (1987); Fornell (1992) discovered that readiness to give favoring feedback to supplier and recurrent buying behavior are essential signs of customer loyalty. These two behaviors appear in a number of studies as loyalty indicators (Zeithaml et al., 1996; Sirdeshmukh et al., 2002). Nevertheless, loyalty claims itself in not only behavioral perspective, but it is also subjective to personal attitudes.

Dick and Basu (1994) proposed the idea of relative attitudes while outlining different forms of loyalty shown in Figure 27. He suggested that loyalty is determined by two variables forming four dimensions: true loyalty, latent loyalty, spurious loyalty and no loyalty.

		Repeat Patronage	
		High	Low
Relative Attitude	High	True Loyalty	Latent Loyalty
	Low	Spurious Loyalty	No Loyalty

*Figure 27. Categories of Loyalty (Dick & Basu, 1994).*

Dick & Basu (1994) stated that these variables serve as the assessment of the service features including the intensity of that assessment and the attitudinal differentiation which refers to the level of differentiation from substitutes.

As was pointed out by Palmer et al. (2000) and Rowley (2005) loyalty evolve through sequential phases. Therefore, companies have to apply corresponding strategy for treating customers at a particular phase. Table 10 demonstrates how Oliver (1999) classified customer loyalty progress by dividing it into four successive phases:

**Table 9.** *Phases of Customer Loyalty Development (Oliver, 1999).*

<b>Cognitive loyalty</b>	The customer believes the product to be superior than others and thus, chooses it over others. Information about the brand and its perceived benefits affect the buying decision.
<b>Affective loyalty</b>	Reiterated confirmations of customers' expectations lead to affective form of loyalty where a particularly favorable attitude gets developed towards the brand.
<b>Conative loyalty</b>	High involvement and motives fueled by strong buying intentions give way to the development of an intense form of loyalty i.e., conative loyalty.
<b>Action loyalty</b>	Strong motivations that ultimately lead to actions directed by the 'need to remove' every possible problem that might hinder the loyalty driven decision of purchasing a specific brand.

Oliver (1999) also argued that action loyalty is viewed as a necessary outcome of involving preceding phases of loyalty and is complemented by a will to overcome obstacles that may keep a customer from favoring the service organization.

The reasons for customers to develop loyalty to companies and organizations have been studied for decades by many scholars. Terblanche and Boshoff (2006) pointed out that it is vital to understand the antecedent drivers of loyalty in order to leverage the highest value it may deliver. Johnson et al. (2006) and many other specialists and researches in the area of customer loyalty agreed on the fact that the factors creating loyalty are complex and dynamic, changing and evolving over time. Taylor et al. (2006) stated that there are still numerous underresearched gaps in the understanding of loyalty and other relationship that exist on market.

Measuring customer loyalty and its determinants in different markets and countries may bring out significant variance in the explanation of loyalty. Even though numerous research has been done in the attempt to figure out what causes customer loyalty, a clear understanding on determinants of loyalty and their significance has not been achieved (Brady et al., 2005). Ball et al. (2004) claimed, that the causes of customer loyalty and their decisiveness might vary depending on market and geographical region.

Table 11 below represents information regarding different variables of market relationship and service assessment, which are found to be the precedents of customer



loyalty. Each determinant is a brick for building customer loyalty. The impact of them is also shown in the table.

**Table 11.** *Determinants of customer loyalty and their impact (Rai & Srivastava, 2012).*

<b>Determinant</b>	<b>Consequential Behavior</b>
Service Quality	<ul style="list-style-type: none"> <li>• Customer satisfaction (confirmation of expectations)</li> <li>• Positive behavioral intentions (repurchase, recommendation)</li> <li>• Positive word of mouth</li> </ul>
Customer satisfaction	<ul style="list-style-type: none"> <li>• Future purchase intentions (repeat purchases)</li> <li>• Customers' active participation in terms of buying additional services and spreading favorable word-of-mouth communication</li> <li>• Decrease in customers' sensitivity towards competitive offers</li> <li>• Increased market share from repeat business and referrals</li> </ul>
Trust	<ul style="list-style-type: none"> <li>• Repurchase intentions</li> <li>• Reduction in the cost of negotiations and removal of the customer's fear of opportunistic behavior by the service provider</li> <li>• Formation of highly valued exchange relationships</li> <li>• Maintenance of long term relationships</li> </ul>
Commitment	<ul style="list-style-type: none"> <li>• Liking and emotional attachment to the firm</li> <li>• Resistance to switching behavior</li> </ul>
Switching cost	<ul style="list-style-type: none"> <li>• Repeat purchase behavior</li> <li>• Impact on customer satisfaction</li> <li>• Dissuade customers' attraction towards competitive brands</li> </ul>
Corporate image	<ul style="list-style-type: none"> <li>• Image congruence</li> <li>• Reinforcement of self-image</li> <li>• Repeat patronage</li> </ul>
Service recovery	<ul style="list-style-type: none"> <li>• Affecting favorable behavioral intentions</li> <li>• Impact on switching intentions</li> </ul>
Emotions	<ul style="list-style-type: none"> <li>• Impact on post-purchase behavior such as repeat visit, recommendation and repurchase intentions</li> <li>• Influence the post consumption satisfaction judgement</li> </ul>
Communication	<ul style="list-style-type: none"> <li>• Responsible for building awareness in the early stage, developing customer preference, convincing and encouraging the customers to make the decision to buy</li> </ul>

Customer loyalty literature suggest that loyalty is a three-dimensional concept and can be generally categorized into behavioral, attitudinal and cognitive loyalty (Jones & Taylor 2007). This is in line with Oliver (1999) who divided loyalty on actions (behavioral loyalty), and the psychological part of the bond (attitudinal/cognitive loyalty).

Initially researches studying to service loyalty were focused on behavioral perspective of repetitive purchasing (Jones & Taylor, 2007). Reichheld (1994) argued, that many researches used the terms customer loyalty and customer retention interchangeably,

because it is possible to calculate retention and get a precise net present value. Behavioral consequences of loyalty comprise:

- repetitive buying from one supplier (Zeithaml et al., 1996; Jones et al., 2000),
- reduced willingness to switch (Bansal & Taylor, 1999; Dabholkar & Walls, 1999), and
- buying all products in a specific category from one supplier (Reynolds & Beatty, 1999; Reynolds & Arnold, 2000).

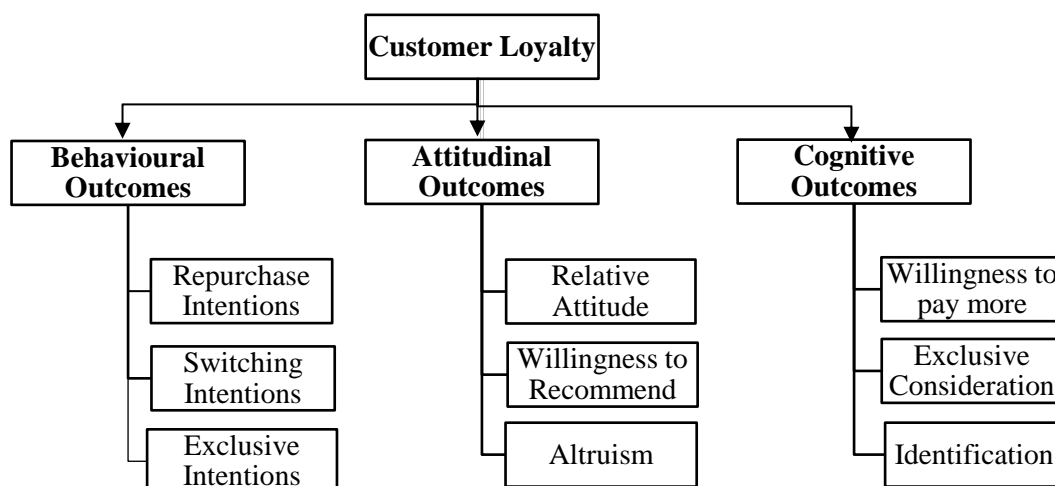
Apart from behavioral view Dick & Basu (1994); Pritchard et al. (1999) pointed out on attitudinal perspective of customer loyalty. Jones & Taylor (2007) argued that relative attitude (an emotion-driven valuation of the supplier) typically has the following features:

- positive word of mouth (Butcher et al., 2001; Javalgi & Moberg, 1997),
- obvious favoring of supplier (Mitra & Lynch, 1995),
- express associative feeling toward the product, service, or company (Fournier, 1998), and
- performing unselfish actions, like assisting the supplier or other customers in service delivery improvement (Patterson & Ward, 2000; Price et al., 1995).

Bloemer et al. (1999); de Ruyter et al. (1998); Oliver (1999) also mentioned the importance of cognitive loyalty among others. Lee and Cunningham (2001) defined cognitive loyalty as a conscious assessment of a brand and its attributes. Dwyer et al. (1987) argued that the reason for customers to favor a certain supplier is a conscious evaluation of the advantages and incentives of rebuying. From the cognitive perspective customer loyalty is determined as (Jones & Taylor, 2007):

- getting much consideration from customer (Dwyer et al., 1987),
- being the priority choice of the customer (Ostrowski et al., 1993),
- the customer is not affected by change in price (Anderson, 1996; de Ruyter et al., 1998),
- thinking about the supplier as a unique for a particular service or product (Gremler and Brown, 1996), and
- recognizing a supplier as a part of one's self and support this by using phrases such as “my service provider”, or by including oneself into the service provider and referring collectively with “us” and “we”. (Butcher et al., 2001).

The three dimensions of customer loyalty and their outcomes are represented in Figure 28 below.



**Figure 28.** Outcomes of Customer Loyalty (Rai & Srivastava, 2012).

Although the above mentioned prevailing concepts have been widely used by researchers and practitioners during few past decades and have provided essential understanding of what constructs customer loyalty, they, nonetheless, were not undoubtedly admitted (Salenga & Goodwin, 2005; Smith & Wheeler, 2002; Dube & Renaghan, 2000; Cronin et al., 2000; Cronin & Talor, 1992). The rejection is mostly regarded to the agreement among the majority of loyalty researchers that the concepts of quality, value and satisfaction are adequate for building loyalty. The above mentioned authors agree that one important variable was not properly taken into account when considering customer loyalty, in particular customer experience. Allowing for we are now living in the age of experiences, Smith & Wheeler (2002) suggested that companies have to deliver to users a branded customer experience. The research community and business management professionals agree on the fact that the core for constructing loyalty lies in the customer's experience with the product or service. Consequently, the main tool for building customer loyalty is skillful management of customer experience.

Many companies consider customer loyalty as a mean for developing business. Rosenberg et al. (1984) argued that it is cheaper to retain a customer than acquire a new one as far as cost is concerned. Nevertheless, it is still common that such factors as insufficient service quality, low switching cost and service failure lead to significant decrease in customer loyalty.

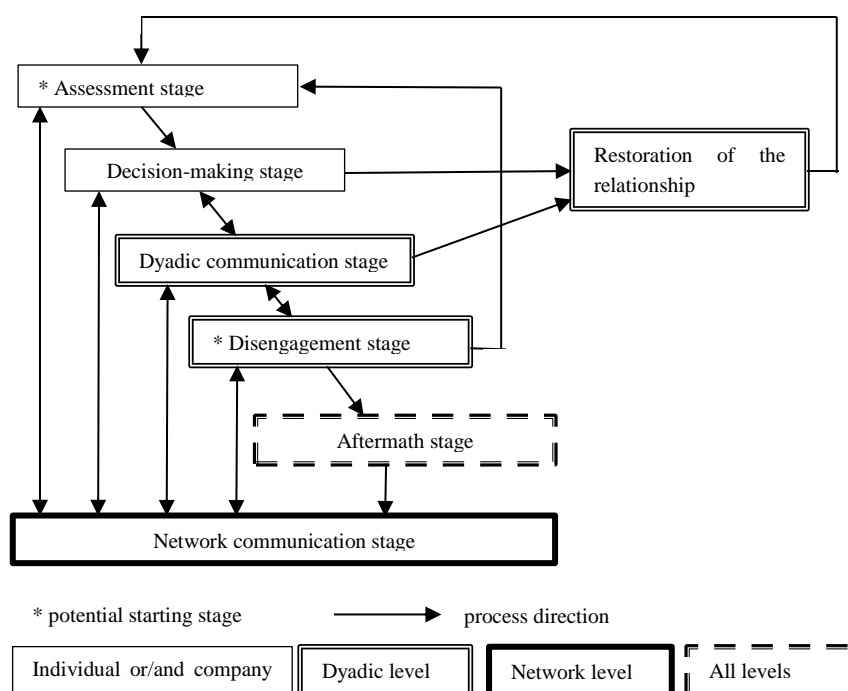
## 4.2. Switching Supplier

Several studies have been conducted in order to find out the reasons for the B2B supplier switches. Heide and Weiss (1995) studied buying incentives of companies in a high-technology industries. They argued, that the perception of rapid technological change

increases probability that customers will select old suppliers. The customers' experience and centralized decision-making, on the other hand, make the chances of a supplier switch higher. Wilson (1995) created a model for studying how the relationship variables function in an altered way at different stages of a relationship, from choosing supplier to relationship upkeep. He suggested that reputation, power, and dependence play an important role on the earlier stages of the relationship, while structural bonds, cooperation, and commitment influence later stages of the relationship.

Psychology and business management literature distinguish sequential phases in supplier-customer relationship dissolution process. They are predominantly grounded on interpersonal and business relationship termination processes, but still can be applied in supplier-customer context. Duck (1982) suggested that interpersonal relationship dissolution proceeds via four stages. It begins with the intra-psychic stage when people consider their state of affairs in a cognitive process and perceive dissatisfaction in relationship. This step is followed by dyadic stage, when the person expresses the discontent to partner. After that comes the third stage, during which public becomes aware of relationship termination. Finally, in the grave-dressing stage the parties clear up the situation and decide whom to blame for the dissolution of relationship (Hallinen & Tähtinen, 2002). Nevertheless, such description is not completely suitable for picturing supplier-customer relationship as the nature and the number of involved parties differs greatly in business and interpersonal relationship (Tähtinen, 2001).

Hallinen and Tähtinen (2002) have developed another relationship termination model applicable in business context. They claim that when ending relationship companies go through five phases, and each phase has feedback linkages with the associated network. The model is illustrated in Figure 29. In the assessment phase individuals of the disengager begin to assess present relationship and its possible future outcomes. Even though those people may have power to demand relationship dissolution, the verdict regarding exit, voice or loyalty might only be made after discussion with other people in the company. This phase is named by Ping and Dwyer (1992) as intra-personal and intra-company. During the next decision-making phase people in charge will agree on supplier strategy to be implemented. After that in the dyadic communication stage the decision will be expressed to other party. If the supplier will actively react the termination process may end at this point. In case of inactivity the disengagement phase will be started. Then, comes aftermath phase, in which the actors mentally go through the ending process in order to make sense of what has happened and to evaluate what has been achieved during the relationship (Hallinen & Tähtinen, 2002). In supplier-customer relationship context, the phase model suggested by Hallinen and Tähtinen can be simplified by merging into decision, execution and evaluation phase (Kirst, 2008).



**Figure 29.** Stages of business relationship ending (Halinen & Tähtinen, 2002).

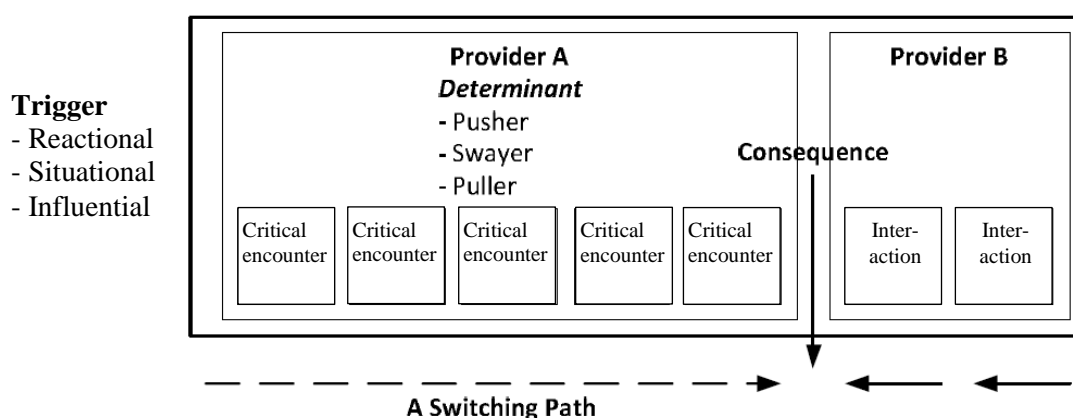
Nevertheless, the relationship termination process comprises several phases, which may act as critical momentum, because the customer company might use a voice strategy using complaints and negotiating with its supplier with the aim to resume the relationship (Alajoutsijarvi et al, 2000). The decision to postpone or terminate the ending process may be influenced by swaying factors (Roos, 1999), mooring variables (Bansalet al., 2005), attenuating factors (Tahtinen & Vaaland, 2006) or switching barriers (Burnham et al., 2003; Colgate & Lang, 2001; Colgate et al., 2007; Jones et al., 2002; Panther & Farquhar, 2004). Above mentioned variables, in case of being ‘potent enough’ (Colgate et al., 2007), will affect the probability of staying in a current relationship acting as restraints to relationship dissolution. On the other hand, if they are not powerful enough, the customer may consider changing the supplier (Bansal et al., 2005; Keaveney, 1995).

In order to explain supplier switches researches have widely used the critical incident technique (CIT) developed by Flanagan (1954). He described an incident as “any observable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the person performing the act.” In addition, a critical incident have to “occur in a situation where the purpose or intent of the act seems fairly clear to the observer and where its consequences are sufficiently definite to leave little doubt concerning its effects.” Gremler’s (2004) pointed out that the CIT have the capability to preserve the respondent’s perspective, generate knowledge inductively, get in-depth insight(s), offer a large set of data, and make available understanding to the perceptions of customers from different cultures. However, the backward-looking

enquiry data and the respondents' aptitude and readiness to communicate a comprehensive story may decrease the method's reliability and validity. Nevertheless, CIT has proved to be suitable for studying supplier switching for scientific and managerial purposes (Keaveney, 1995).

With the aim to understand the nature of supplier switches Roos (1999) proposed the switching path analysis technique (SPAT). He was trying to explain how and why customers switch their suppliers. Comparing to previous models the SPAT provides a wider view to the switching process in general, i.e., including the termination of the previous relationship and the establishment of the new one (Roos 1999, Edvardsson & Roos, 2001; Gremler, 2004). Furthermore, the SPAT comprises both the reflection stage and selection phase of the switch (Heide & Weiss, 1995), to more expansively explain the customer behavior (Edvardsson & Roos, 2001). Still, the described technique was primarily suitable for B2C markets.

Selos et al. (2013) applied SPAT to the process of B2B supplier switch (Figure 30). The triggers give the switching paths start up push and course of development, and the determinants enable the path to proceed further (Roos, 1999, 2004). In addition to customer, the analyses takes into account both old (Provider A) and new supplier (Provider B) taking part in the critical incidents, either actively or passively (Roos & Gustafsson, 2011).



**Figure 30.** SPAT in B2B context (Adapted from Roos, 2002 in Selos et al., 2013).

Various studies consider that supplier switch is often triggered by an incongruity between customer expectations and product features (Keaveney, 1995). Nevertheless, customers might distinguish this incongruity as causing inconvenience much earlier than they actively begin to search new suppliers to switch to (Roos & Gustafsson, 2007). Roos (1999) defines trigger as a factor that alters the current state of the relationship in such a way that the switching process is initiated. In the SPAT, triggers have been divided into three separate categories (Roos, 1999, 2004; Edvardsson et al., 2005):

- Reactional triggers caused by suppliers' actions.
- Situational triggers caused by changes in the customer companies' organizational environment or something influencing this environment.
- Influential triggers originate from changes in the markets that affects the rival situation of suppliers.

In relationships marketing literature, it has been largely accepted that customers' relational patterns with their suppliers can be either active or passive (Grönroos, 1997; Gummeson, 1998). Whereas customers in active mode seek and contact supplier(s) and hence make decisions either on keeping or switching suppliers, customers in passive mode do express such seeking behavior, but are nevertheless still susceptible to supplier switching decisions (Selos et al., 2013). In SPAT literature, these two behavioral forms connected with customers' market sensing have been later combined with influential triggers (Roos & Gustafsson, 2007; Roos & Gustafsson, 2011). Therefore, active customer behavior signifies that the influential market effect comes from inborn customer receptiveness. Passive customer behavior, conversely, means a situation where an influential trigger happens when a new supplier interacts with the customer and creates a new standard of comparison.

A great number of customers are frequently dissatisfied with the relationship they have with their suppliers (Colgate & Lang, 2001), but how customers act in case of dissatisfaction is an important question for business managers (Richins, 1987). Just as satisfied customers are not necessarily loyal (Rowley & Dawes, 2000), dissatisfied customers are not always disloyal (Hirschman, 1970).

Switching costs increase the level of dependency on the supplier (Lam et. al., 2004; Nielson, 1996). The area of switching costs consist of:

- loss of in depth knowledge (Patterson & Smith, 2003),
- learning costs, such as pre-switching research and assessment costs, post-switching behavioral and cognitive costs, and set-up costs,
- loss of performance costs,
- benefit loss costs, and
- sunk costs (Jones et al., 2002).

In a B2B markets, switching costs for a customer appear from preceding company-level investments in physical assets, organizational procedures, and employee training (Nielson, 1996; Wathne et al., 2001). Caves and Porter (1977) argued that even initiative, sensible managers resist shifting poor practices because the cost or difficulty of switching to a better practice is excessive.





look for easily claimable cost savings and favor lower-valued and lower-priced products over higher-valued and higher-priced product in their decisions.

### 4.3. Purchasing Portfolio

Purchasing has developed from a clerical buying task into a strategic business process, which plays an important role in building company's competitive advantage (Ellram & Carr, 1994; Carter & Narasimhan, 1996). Managing relationship with supplier can improve competitive position of enterprise (Dyer, 1996; Mol, 2002; Chen et al., 2004). Obviously, companies cooperate with the variety of suppliers and they should be treated in different way. Lilliecreutz and Ydreskog (1999) stated that there is a need to group suppliers and develop corresponding approach to each of them. Portfolio models provide differentiated strategic actions for heterogeneous categories of objects or subjects (Turnbull, 1990). Consequently, purchasing portfolio is a suitable technique for creating a differentiated, strategic buying process.

Kraljic (1983) developed a complete purchasing portfolio method, containing a matrix, that categorizes products bought by company into four groups depending on their effect on profit and supply risk. Several scholars have presented analogous models, though they comprise more resemblances than differences with the authentic Kraljic matrix (Elliott-Shircore & Steele, 1985; Olsen & Ellram, 1997; Lilliecreutz & Ydreskog, 1999; Van Weele, 2002). With growing popularity, the Kraljic matrix became the standard in the area of purchasing portfolio models (Lamming & Harrison, 2001; Gelderman, 2003). Furthermore, it turned to be the prevailing method to what the profession regards as "operational professionalism" (Cox, 1997).

Kraljic's comprehensive approach gives an effective framework for shaping the supply strategy (Sjöberg, 2010). It comprises four stages (Table 12) and involves two matrices.

**Table 12.** *The four stages approach (Adopted from Kraljic, 1983).*

Stage 1: <b>Classification</b>	Stage 2: <b>Market analysis</b>	Stage 3: <b>Strategic positioning</b>	Stage 4: <b>Action plans</b>
Classify all purchased materials/components in terms of profit impact and supply risk	Analyze the supply the supply market for these materials and components	Determine the overall strategic supply	Develop materials' strategies and action plans

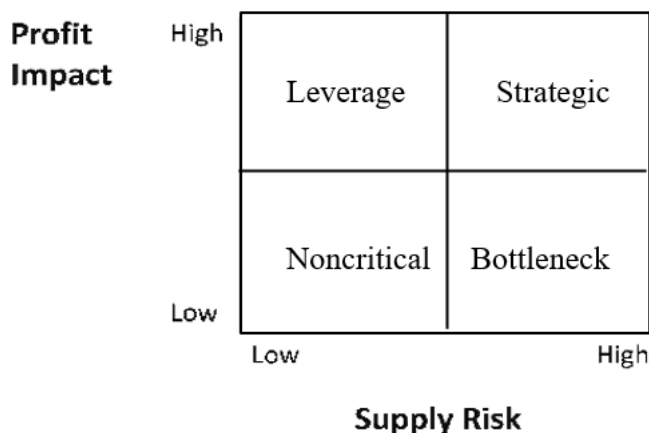
During stage 1 all the purchased products or components are categorized depending on their effect on profit and supply risk in a matrix built on these two dimensions. The effect

on profit is determined in the scope of volume purchased, fraction of total purchase cost, or influence on product quality or business development. Supply risk is evaluated based on obtainability, number of suppliers, competitive demand, make-or-buy opportunities, warehouse risks and replacement options.

The dimensions in matrix imply two potential values: low or high. The items to be purchased are placed in the matrix and classified into four groups as demonstrated in Figure 32:

- strategic (high profit impact, high supply risk);
- bottleneck (low profit impact, high supply risk);
- leverage (high profit impact, low supply risk);
- noncritical (low profit impact, low supply risk).

Thus, such categorization facilitates decision-making by using segregated and consequently more concentrated approach. All four groups are characterized by own role, decision level and necessary information. The greater strategic implications a group has the more complex approach is required.



**Figure 32.** Classification matrix in Kraljic's portfolio approach (Kraljic, 1983).

Stage 2 is devoted to exploration of the company's bargaining power as a customer and the strengths of the suppliers. At this stage the company first systematically evaluates the supply market, assessing the obtainability of strategic items in terms of both quality and quantity, as well as the relative strength of existing suppliers (Kraljic, 1983). Table 13 illustrates the assessment criteria for marketing analysis proposed by Kraljic. During the process of analysis it is important to remember two facts: assessment criteria might differ depending on industry, and changes, particularly technological changes might change the degree of the strength.

**Table 13.** *Classifying purchasing materials requirements (Kraljic, 1983).*

<b>Supplier strength criteria</b>	<b>Company strength criteria</b>
Market size vs supplier capacity	Purchasing volumes vs capacity of main units
Market growth vs capacity growth	Demand growth vs capacity growth
Capacity utilization or bottleneck risk	Capacity utilization of main units
Competitive structure	Market share vs main competition
ROI and/or ROC	Profitability of main end products
Cost and price structure	Cost and price structure
Break-even stability	Cost of non-delivery
Uniqueness of product and technological stability	Own production capability or integration depth stability
Entry barrier (capital and know-how requirements)	Entry cost for new sources vs cost of own production
Logistics situation	Logistics

Based on the results of marketing analysis, the purchased items which are grouped in stage 1 will be placed in the purchasing portfolio matrix at stage 3. This matrix demonstrates the firm's comparative position by outlining company buying strength against the strengths of the supply market. Company strength and supply market strength from dimensions of the matrix with possible values of "high, medium, and low". As illustrated in Figure 33 the nine squares constitute to three risk categories, each characterized by a different strategic thrust. In case the firm is dominant, a soundly aggressive strategy is demonstrated, Kraljic named it "exploit". When the supplier is strong, a protective strategy is suitable ("diversify") and the firm should look for replacements for the items or suppliers. A stable strategy ("balance") is suggested if the comparative power is more or less equal for the two parties.

<b>Company Strength</b>	High	Exploit	Exploit	Balance
	Medium	Exploit	Balance	Diversify
	Low	Balance	Diversify	Diversify
		Low	Medium	High
		<b>Supply Market Strength</b>		

**Figure 33.** Kraljic 's matrix purchasing portfolio matrix (Kraljic, 1983).

During the fifth stage a company should work through a variety of supply scenarios. The distinct features of the purchasing strategy for each of the three strategic thrusts are diverse. The firm must clearly state corresponding risks, costs, returns, and strategic implications, and create action plans concerning such questions like make-or-buy, purchasing volume, price, supplier choice, material replacement, inventory policy to ensure both long-term and short-term supply. Strategic implications of purchasing portfolio positioning are demonstrated in Table 14.

*Table 14. Strategic implications of purchasing portfolio positioning (Kraljic, 1983).*

<b>Elements of purchasing strategy</b>	<b>Strategy: Exploit</b>	<b>Strategy: Balance</b>	<b>Strategy: Diversify</b>
<b>Volume</b>	spread	keep or shift carefully	centralize
<b>Price</b>	press for lower	negotiate opportunistically	keep low profile
<b>Contract</b>	buy spot	balance contracts and spot	ensure supply with contacts
<b>New supplier</b>	enforce supplier	selected vendor	search vigorously
<b>Inventory</b>	keep low	use stocks as “buffer”	bolster stocks
<b>Own product</b>	reduce or do not enter	decide selectively	build up or enter
<b>Substitution</b>	stay in touch	purse good opportunities	search actively
<b>VE</b>	enforce supplier	perform selectively	start own program
<b>Logistics</b>	minimize cost	optimize selectively	secure sufficient stocks

The usage of Kraljic model is justified both on academic and business settings (Nellore & Söderquist, 2000). It has become the dominant approach in the development of purchasing strategy for many organizations across different sectors (Gelderman & Weele, 2003).

#### **4.4. M&A as a Business Opportunity**

When developing strategy for acquiring new customers, a supplier should understand how customers perceive their relationship with suppliers and what are the drivers of their purchasing decisions. An insight into customer behavior can help to find the right approach and build an effective proposition. Looking at customer’s purchasing portfolio from the perspective of supplier switch might help to better understand customer viewpoint. Figure 34 demonstrates the perspective of a machine manufacturer on switching suppliers of different components. The purchasing portfolio illustrated below is created by using a model developed by Kraljic (1983).

		Cost in relation to the entire machine cost	
		High	Low
Importance for machine operation	High	Supplier switch should be cautious and well-grounded. Risks: high Cost savings: high	Supplier switch is highly unfavorable. Risks: high Cost savings: low
	Low	Supplier switch is reasonable. Risks: low Cost savings: high	Supplier switch will not make a big difference. Risks: low Cost savings: low

**Figure 34.** *Supplier switch strategies for components based on cost and impact on operation.*

The matrix includes two variables, which play an important role in customer decision to switch. The first one is the cost of a component in relation to the entire machine cost. The second one is the importance of a component for machine operation or, in other words, it shows, how big will be the impact in case of component's poor performance or failure.

The upper left square of the matrix represents components that incur high costs and are important for machine operation. In such situation OEM has to be careful with switching decision. Supplier switch has to be cautious and well-grounded. As the risk that poor machine operation will affect company's brand name is high, in case of any doubts regarding new supplier the company should continue cooperate with the old one. If the quality of new supplier's product is high and services are performed well switching might enable OEM to reduce costs if an advantageous deal is offered.

The lower left square comprises components that play a minor role in machine operation, but at the same time involve high costs. In this case the company can experiment with switching supplier without any harm to machine operation. Consequently, risks are low, but the cost saving potential is high.

The components which belong to the lower right square of the matrix are those the role of which in machine operation is insignificant, as well as costs. The OEM should consider whether it is worth to spend time and efforts on supplier switch. Sometimes changing a supplier can involve switching costs. Moreover, new cooperation establishment can take time and distract attention from more important things in company. Consequently, there are situation when it is better to continue working with current supplier, although the price of components is a little bit higher.

Lastly, the upper right square represents components the costs of which are low, but at the same time these components are essential for machine operation. The risk of switching supplier is high, because component's failure can seriously affect the brand name. Low cost of the component comparing to the entire machine cost make OEM to be highly rigid in terms of switching a supplier. The benefits of such transaction are low, and considering high risks, it is not reasonable to spend efforts and company resources on it.

Suppliers, whose product belongs to the upper right square, face difficulties with acquiring new customers. From customer's view switching barriers are too high comparing with possible positive outcome. In addition to switching costs customers have doubts whether a new supplier will perform service on the same level. Also, trust, commitment and communication issues are uncertain. Finally, cooperation with new supplier in case of any shortcomings might lead to damaging corporate image. Therefore, OEMs tend to maintain long-term cooperation with suppliers. Low price and excellent service offer usually is not enough to make customer interested in switching. Consequently, more sophisticated approach and strategic view is required.

As demonstrated in Figure 35 the above mentioned group of components is characterized by strong customer loyalty to suppliers. This is in line with the study conducted by Yen (2010), which claims that perceived risks will affect the relationship of switching costs and customer loyalty. For clients with low expected risks, customer loyalty increases proportionally with switching costs. However, for customers with high perceived risks, the relationship of switching costs and customer loyalty is weak or negative (Yen, 2010).

		Cost in relation to the entire machine cost	
		High	Low
Importance for machine operation	High	Supplier switch has to be cautious and well-grounded. Risks: High Cost savings: High	Supplier switch is highly unfavorable. Risks: high Cost savings: low
	Low	Supplier switch is reasonable. Risks: low Cost savings: high	Supplier switch will not make a big difference. Risks: low Cost savings: low

← The square of strong customer loyalty

**Figure 35.** The square of high customer loyalty.

As was mentioned by Selos et al. (2013), who applied SPAT to the processes of B2B supplier switches, customers have to experience a certain number of critical encounters before they get to the point where the decision to switch supplier is made. In the case of components, which belong to the upper right square of the matrix shown in Figure 1, there

has to be a considerable number of critical encounters or their impact has to be strong enough to provoke supplier switch.

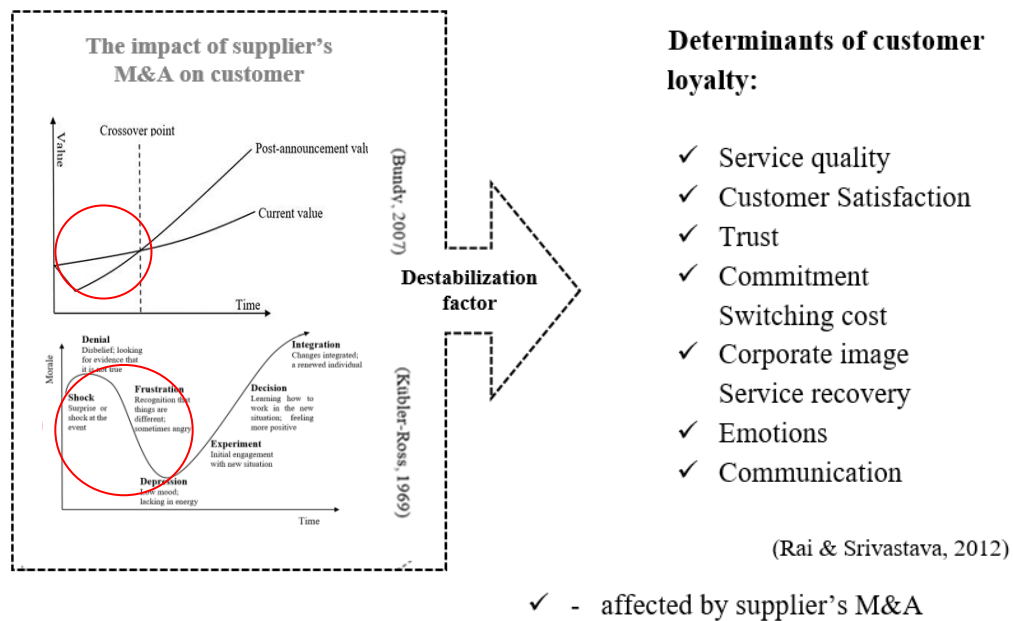
M&A as a complex organizational change can cause numerous critical encounters. As was mentioned in Chapter 2.4, the reactions of customers on supplier's M&A is often rather negative than positive. Customers usually demonstrate a high level of uncertainty and doubt. Jaju et al. (2006) states that brand and strategy integration during M&A make customers confused. This is in line with Homburg and Bucerius (2005), who were talking about customers' disturbance and worries about the outcomes of the post-merger phase in terms of prices, product and service quality, contact persons, especially if the acquirer does not allot proper attention to communication. Other researchers also claim, that customer abstinence and rejection are not uncommon responses during M&A (Reichheld & Henske, 1991; Zollo & Meier, 2008).

The Kübler-Ross change curve and value curve proposed by Bundy (2007) described in Chapter 2.4 suggest that there will a certain period of time after a merger or acquisition, during which customer has many reasons to be unsatisfied with supplying partner. Consequently, M&As create a thriving environment for rivals to mobilize resources and intervene. Competitors might view M&As as a business opportunity and approach customer with an attractive proposition. Dissatisfaction with current supplier might make even highly loyal and rigid customer open to new business relationship.

As the merged supplier establishes new requirements and negotiates with customer regarding current process or system, the latter might be reluctant to cooperate and show signs of resentment. Faced with the fact, that they may need to leave behind what is comfortable to learn a new system or process, many are likely to experience feelings of anger and pessimism (Terrell, 2015). As the project goes on, negative emotions may increase with mounting levels of annoyance concerning cooperation within a project they didn't ask for. Moreover, the supplier experiences situations when customer frustration can be indeed justified. If change is widespread across the whole organization, very little can be achieved during this period, because there is likely to be a sharp drop in motivation for all concerned, less loyalty and less diligence in performance (Wilson, 2008).

Determinants of customer loyalty proposed by Rai and Srivastava (2012) can be divided on those related to current supplier-customer relationship and those, related to potential supplier switch. As demonstrated in Figure 36, M&As in supplier affect almost all determinants of customer loyalty apart from switching cost and service recovery which would occur in case of supplier switch. Considering all above mentioned, M&A serve as a strong destabilization factor for customer loyalty.

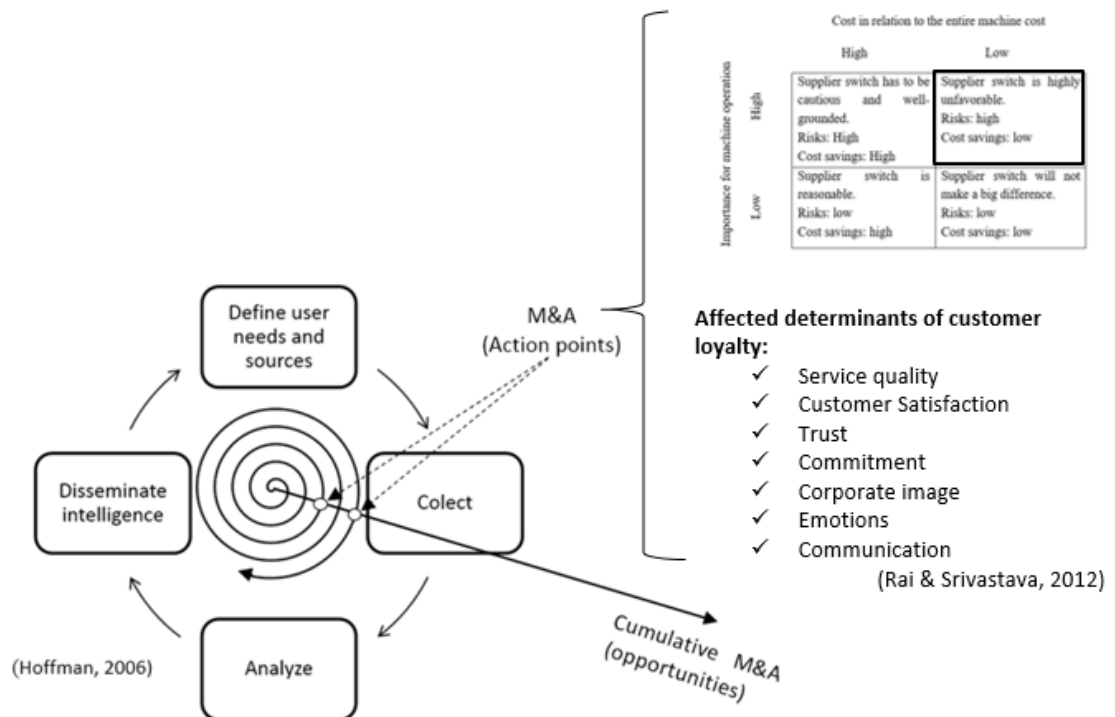




✓ - affected by supplier's M&A

**Figure 36.** M&A affect customer loyalty.

Thus, in industries with high supplier switching barriers, M&As can offer to competitors an opportunity to acquire new customers. However, as demonstrated in Figure 37, in order to detect M&A and other advantageous changes in competitors' companies the market has to be systematically and thoroughly observed.



**Figure 37.** Continuous competitive intelligence process and M&A as opportunities.

It is important that marketing managers, marketing executive, marketing researchers and other personnel of a company attain proper knowledge about changes in the marketing environment. An alertness and sensitivity to the environment is very essential ingredient of business success, survival and longevity, because of the firm's dependence on it for resources inputs and services outputs (Igbaekemen, 2004). That is why companies should continuously work on gaining competitive intelligence. In this way changes and, accordingly, opportunities in market will not pass by unnoticed.

## 5. THE CASE COMPANY

### 5.1. The Case Company

The case company is a fully integrated manufacturer, that focuses mainly on the hydraulic market, designing and developing fluid connectors. Fluid connectors are the metal components employed to convey fluid under pressure. They include such components as fittings for flexible hoses, quick release couplings, adaptors, swivel joints and valves. In a global perspective on the market dominated by large corporations, the case company is a mid-sized company doing business in the medium-to-high-end market range, and performs as a business partner rather than just a component supplier.

The company is based in Italy and has been growing steadily serving the needs of a small number of high-value customers who share similar business models and long-term goals. The firm is trying to implement lean philosophy and maintain a high level of flexibility. In its operation the company allots much attention to flexible manufacturing, effective organization and on-time deliveries. About 80 percent of the company's turnover comes from less than thirty customers. The company often competes with big-name brands; yet, in many organizations, the firm have replaced its larger competitors as a result of its capacity to provide an equivalent or better product, combined with a leaner and more flexible relationship.

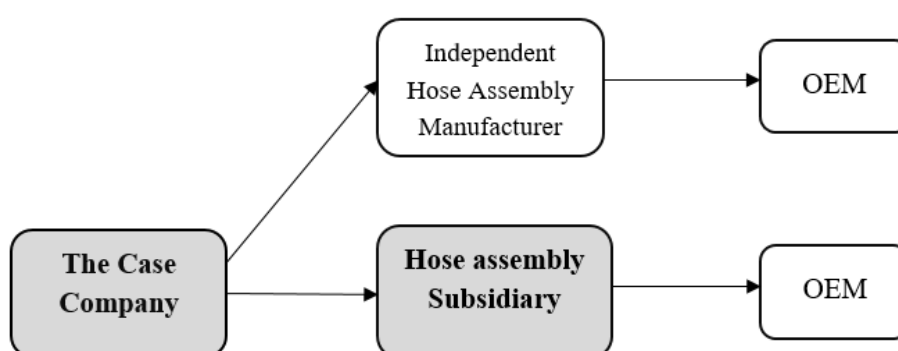
In early days of company existence, business was primarily concentrated on the distribution of mechanical and hydraulic components. Eventually the company focus gradually was dragged to the production of components for pressurized fluids, both through direct investments and the acquisition of a supplier in Italy.

The next important step on the way to becoming a thriving fluid connector specialist was the integration of its metal couplings production program with a full range of high-pressure flexible hoses. The company distributes through its network hoses of such companies as Sel/Eaton, Semperit and Bridgestone among others. It has maintained partnership with Bridgestone of Japan as their exclusive distributor in Europe for their range of high-pressure flexible hoses. Bridgestone hoses are supplemented by other hoses made according to the case company specification and with their own brand for the European market.

A turning point in company history was the transition from the production of parts to the development of own product collection, articulated in different families. Nowadays, company's product portfolio includes a wide, diverse range of couplings, fittings, flexible hoses of different types and materials, and quick release couplings, swivel joints and

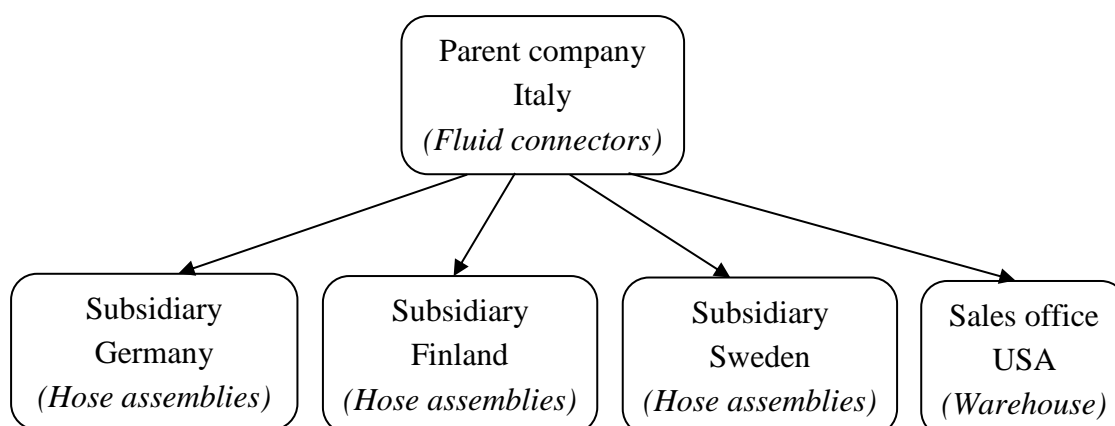
adaptors. These products are primarily used in earthworks machinery, fixed hydraulic equipment, mining equipment, offshore rigs, forestry and agricultural machinery. The new product line of high-pressure hoses is used in power wash and waterblast equipment. The company's customer portfolio includes brands such as Sandvik, Caterpillar, Liebherr and Bosch Rexroth.

One part of the case company's products is sold to distributors, independent hose assembly companies and OEMs with integrated hose assembly lines. The second part of the products is sold assembled for OEM customers, which is accomplished by hose assembly subsidiaries. Thus, as it is shown in Figure 38, the case company can be at the same time a supplier and a competitor for its customers.



**Figure 38.** Two distribution lines of the case company

The organization consists of three manufacturing sites in Italy, two research and development centers, subsidiaries in Germany, Sweden and Finland, and a sales office in Miami (for the North American market). The structure of the case company is illustrated in Figure 39 below.






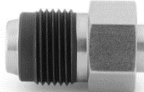








**Figure 39.** The case company's structure.

Company portfolio includes products which can be divided into two groups. The first product group, in which the case company performs as a distributor, but not a





manufacturer, comprises different kind of hydraulic hoses with the variety of application. A hydraulic hose is a flexible hollow tube structure designed to transport fluids from one location to another within hydraulic machinery to transfer the requisite force (Credence Research, 2016). Hydraulic hoses are used in construction equipment, agricultural equipment, industrial and material handling equipment, lubrication lines as well as in power and telephone mobile equipment. The second group is fluid connectors, such as couplings, fittings, in-line valves, swivel joints and adaptors. A hydraulic coupling is a connecting component used to join two hydraulic hoses together at ends for transferring power (Credence Research, 2016). A wide variety of fittings is installed in hydraulic systems, which execute different functions. The most common types are described in the table below:

**Table 15. Types of fittings (IEEE GlobalSpec, 2016).**

<b>Fittings which extend or terminate pipe lengths:</b>		
<b>Adapter</b>	Connects two dissimilar pipes to each other via solvent welding, soldering, or threading.	
<b>Coupling</b>	Connects two similar pipes to each other via solvent welding, soldering, or threading.	
<b>Sleeve</b>	Connect two sections using mechanical fasteners (e.g. screws, anchors). Installation is typically quicker and simpler than a soldered or welded coupling connection.	
<b>Union</b>	Couplings which can be disconnected without cutting. Their connection (typically threading) allows for easy release.	
<b>Cap</b>	Covers the end of a section, attaching to a male connection via a weld, thread, solvent, or solder.	
<b>Plug</b>	Closes off the end of a system, attaching to a female connection via a weld, thread, solvent, or solder.	
<b>Fittings which add or change direction:</b>		
<b>Elbow</b>	Changes the direction flow to various angles. The most common angles are 90° and 45°, but 22.5° elbows are also made.	
<b>Tee</b>	Connects three flow sections in a T-shaped intersection. This allows fluid flow to be combined or split apart.	
<b>Cross</b>	4-way connections, providing one inlet and three outlets or vice versa. Crosses are less steady than tees, and can generate high stress on the vessel with temperature changes.	
<b>Fittings which connect pipes of smaller size:</b>		
<b>Reducer</b>	Includes all connections which connect between two or more vessels of different sizes.	
<b>Fittings which provide special connections or functions:</b>		
<b>Nipple</b>	Allows two separate fittings to be connected at each end. Standard nipples are straight with male threads on both ends.	
<b>Valve</b>	Connects vessels together with the addition of a valve for the control of flow	

The company's product portfolio includes fluid connectors from the following groups: pre-crimped one-piece fittings, two-piece interlock fittings, quick disconnect couplings and adapters. The product groups are represented in Table 16.

**Table 16.** *Product categories.*

	Pre-crimped fittings for braid hoses, spiral hoses, R7 and Teflon
	Two piece swaged fittings – Interlock fittings
	Quick disconnect couplings, swivel joints and in-line valves
	Adapters

A one-piece hose coupling consists of a collar for crimping on a reinforced hose, which collar contains an inner surface having a number of inwardly directed annular barbs formed on it. Each of the barbs encompasses leading and trailing parts of outer covering which are directed at alike angles to contrary sides of a normal plane spreading through it in a direction normal to the axis of the collar. Each annular barb contains an edge outer layer which is even and spreads perpendicular to the normal plane and each of the side outer layers well joined with the inner layer of the cylindrical body with a designated radius of curvature. The radius of curvature of the trailing covering is greater than the radius of curvature of the leading covering. A steady and firm joint with the reinforced hose is achieved by creating identical angles of convergence for leading and trailing coverages and non-identical radii of curvature of the curves which the leading and trailing coverage unify in the inner coverage of the collar. One-piece fitting helps to avoid the removal or unnecessarily disturb the outer layers of the hose that would occur because of skiving and threadable engagement. Pre-crimped fitting is adapted to simple, inexpensive and rapid manufacturing techniques and, for that matter, field attachment of permanent hose fittings.

A two-piece swage fitting is constructed of unified shank and pin receiving parts. The steel shank part has a spheroidized strengthened microstructure. One tip of this shank segment is originally provided with an externally open, axially aligned, cylindrical cup part, whereas the other tip is formed as an axially aligned, exposed, hollow cylinder adapted to be cold swaged by a wire cord. The swage pin receiving section is constructed

of steel and its microstructure is much harder and firmer, and one tip of it is designed as a part spherical ball part inherently joint via a narrowed neck either to a pin receiving clevis or tongue end section at the other end. In order to make the swage socket, the ball part of the pin receiving section is injected into the cup of the shank segment and the outer end area of the cylindrical cup is cold formed onto the ball part to create a linkage between the shank part and the pin receiving part for enabling these parts to rotate and oscillate one with respect to the other.

Quick couplings consist of two parts: a plug and a socket. The plug is the male part and the socket is the female part. When connected appropriately, these fragments seal and lock the joint effectively for holding internal pressures and resisting any stretching forces that lean towards to separate the joint. The fragments are simply detached without tools by unfastening a locking mechanism and separating parts. If a hose will be connected and disconnected more often than once a week, then it is likely that a quick-acting coupling will pay for itself fast by increasing productivity. The case company manufactures quick couplings in the following subcategories: quick disconnect couplings, flat face couplings, corrosive environment couplings, swivel joints and hydraulic valves.

Hydraulic adapters are used for adjusting the flow of hydraulic liquid between hoses with different diameter. They are categorized depending on type of thread on male or female. They are commonly used as joining or reduction components in hydraulic hose assemblies, quick release couplings, valves, actuators and other parts in hydraulic systems. Available in stainless steel adapters are produced in a form of straight connectors, elbows, tees, crosses and plugs.

## **5.2. Lean Manufacturing and Production of Assembly Kits**

The manufacturing process in the case company is carried on under lean philosophy. Womack et al. (1990) defines the term “lean” as a system that exploits less inputs in order to generate the identical outputs than those created by a traditional mass production system, while widening the variety of different manufactured products for the end customer. Lean manufacturing is closely connected to such concepts as agile manufacturing, just-in-time manufacturing, synchronous manufacturing, world class manufacturing, and continuous flow.

The case company is trying to implement an operational strategy aimed at achieving the shortest possible cycle time by eliminating waste and decreasing unnecessary work. The goal of the company is to shorten lead time, enhance profitability, customer satisfaction and employee motivation. The lean philosophy helps to reduce costs, produce higher quality products, and shorten time between a customer order and shipment. Thus, non-value-added activities, like setting up, waiting for materials, and moving materials are



shortened as much as possible. The approach of the case company to production is described as using less human effort in the company, less manufacturing space, less investment in tools, less inventory in progress, and less engineering hours to develop a new product in less time.

In order to address waste issues the company is trying to eliminate everything that adds cost to the product without adding value. Dividing waste on the areas described by Tapping (2002) and provided below facilitates analysis and helps the company to eliminate waste more efficiently.

1. Waste of overproducing: Producing components that are neither intended for stock nor planned for sale immediately.
2. Waste of waiting: Refers to the idle time between operations.
3. Waste of transport: Moving material more than necessary.
4. Waste of processing: Doing more to the product than necessary and the customer is willing to pay.
5. Waste of inventory: Excess of stock from raw materials to finished goods.
6. Waste of motion: Any motion that is not necessary to the completion of an operation.
7. Waste of defects and spoilage: Defective parts that are produced and need to be reworked.

When applying lean manufacturing the company considers five primary fundamentals: manufacturing flow, organization, process control, metrics, and logistics. Manufacturing flow is about physical alterations and design standards. Organization determines people's responsibilities, employees' training and communication. Process control is aimed at observing, supervising, stabilizing, and pursuing ways to improve the process. Metrics ensures discernable results-based performance measures, established for development, and employees' rewards/recognition. Logistics addresses operating guidelines and mechanisms for scheduling and supervision of material flow.

The case company has been implementing lean manufacturing philosophy in stages. The first stage refers to understanding the customer demand and determining precisely the required number of products to produce each day. After that for meeting customers demand the manufacturing flow is organized in a way that the customer will receive the right products on time and the right amount. Lastly, the production is leveled, meaning that the work to be done is spread to achieve customer demand over a shift or a day.

In order to eliminate sources of waste the case company applies a variety of methods. One of the is just-in-time, which is one of the key concepts in the lean manufacturing. The objective of just-in-time technique is that each process receives the right parts required at the time they are required and in the quantity they are required to manufacture an order from a customer with the highest quality (Ohno, 1988). The technique enables the

company to reduce wastes such as work-in-process inventory, defects, and poor delivery of parts. It is an important tool for managing distribution and purchasing functions of the company. Just-in-time can be divided into just-in-time production, just-in-time distribution and just-in-time purchasing.

As a part of just-in-time the company exploits a Kanban technique. Kanban suggests that while proceeding through production process each product should be accompanied with card which includes the information about work to be done on a product at each phase and required parts in succeeding processes. This card enables to create a product driven production process, and is utilized to guide work-in-process, production, and inventory flow. A Kanban usually exploits a set of such cards, with ones being assigned for each produced component and those for circulating between previous and following processes. The case company uses Kanban technique by incorporating information necessary for production process into a product in a way that the product shows itself what has to be done next.

The company exploits the pull type control of manufacturing process, which includes cost reduction by minimizing the work-in-process inventory, letting a company to increase agility and response fast to fluctuating demand, and in this way to facilitate the production. A pull type production process is a series of production phases carrying out various process steps on parts where each phase includes several workstations in cycle. The speed of pulling parts through the production stages corresponds to the speed at which parts are being consumed by the subsequent phases.

As a part of lean manufacturing the case company uses production smoothing, which is a method for forecasting and meeting customer demand by volume and variety, while maintaining the level of production as even as possible over a certain period of time. Production smoothing is important when using a Kanban method and reducing idle time for workforce, equipment, and work-in-process inventory.

In the attempt to eliminate waste, the case company standardized the key elements of operation. First, the cycle time or time required for manufacturing one unit was established. Second, the sequence of work processes was standardized. Finally, the optimal amount of work-in-process inventory necessary to process a product was determined. The objectives of zero defects and reduced risk that faulty product could reach customer are achieved by implementing automation. An automated machine is able to recognize normal and abnormal operation, and also does not require constant operator attention.

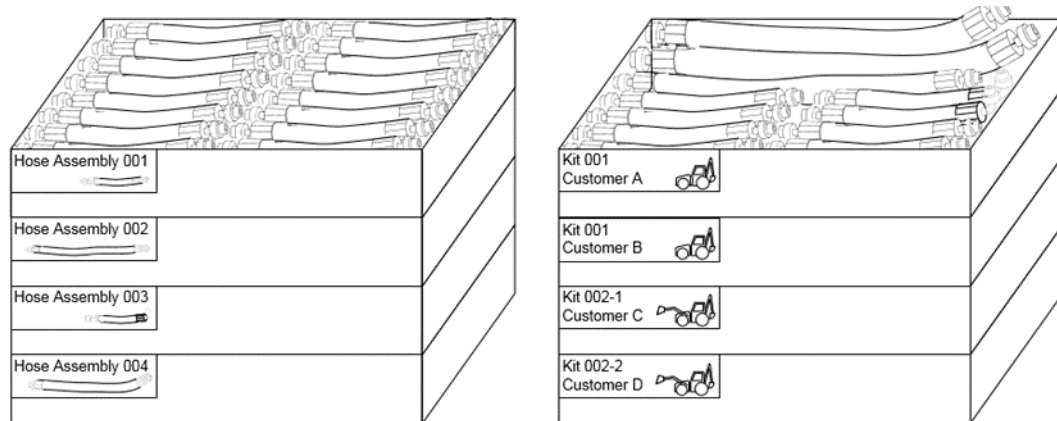
Manufacturing is executed in cells in the order in which operations must be done to produce the end product. After a work cell operation finishes the order, it proceeds to the next operation for additional processing by hand, forklift, or cart. Production is arranged

by product rather than by function and the cell contains equipment dedicated to a similar group of products. Operations proceeds creating a batch of one piece by starting one operation just after the part comes out from the previous operation. The cells are agile and driven by customer demand. The work is performed on one part, which requires from workers to operate numerous similar machines simultaneously.

Workers in cells work closer and perform tasks on different machines simultaneously, lowering total labor cost and improving the efficiency. Secondly, material handling is reduced because of using batches of one good at a time. Also, work in cells results in improved quality, as manufacturing of one product at a time facilitates finding and correction of defects through the process. Finally, work cells minimize work in process because when goods are produced in batches of one type and operations are synchronized, work-in-process inventory is decreased significantly.

The case company encourages everyone in the organization to take part in the process of continuous improvement. This strategy deals with people, and implies leadership that guides people to constantly expand their ability to meet expectations of high quality, low cost, and on-time delivery. Lean manufacturing enables the case company to reach outstanding efficiency and gain competitive advantage over competitors with traditional production processes. At the same time lean production system should be value-added from the perspective of potential customers. Therefore, when searching for potential leads it is essential to make sure, that customers' needs and the benefits of the case company's production system are aligned with each other. The technological aspects of production system of the case company have to be considered when choosing the target market.

With the aim to reduce indirect costs many OEMs prefer to order hose assemblies in machine-specific kits instead of batches. In order to satisfy growing demand the case company manufactures customized kits of hose assemblies. Bozer and McGinnis (1992) defines a kit as "a specific collection of components and/or subassemblies that together (i.e., in the same container) support one or more assembly operations for a given product or shop order." The difference between a conventional batch and a kit order is demonstrated in Figure 40.

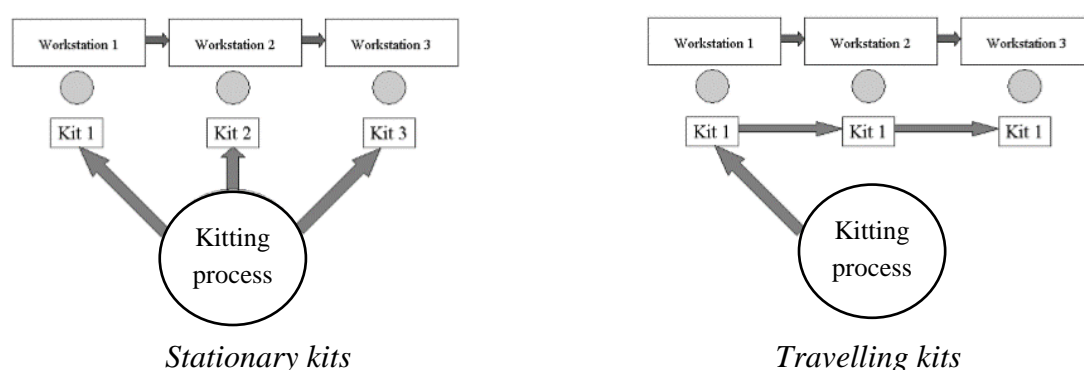


**Figure 40.** Batch production vs. kit delivery.

Kitting as a phenomenon has gained increasing attention during the last few years due to the need for kitting in increasingly customized and lean assembly processes (Lyly-Yrjänäinen et al., 2016). This leads to the increased use of mixed-model assembly lines, allowing a higher product variety and higher degree of customization (Boysen et al., 2009). As a result, due to the productivity fluctuation, the variety of components have to be present at the workstations.

Lean manufacturing has been a factor inciting kits assembly. The cell manufacture reduces waste in terms of material handling, labor and work-in-progress inventory, but at the same time involves the necessity of large diversity of components at each workstation. As kitting as a material feeding process supports the assembler and reduces unnecessary movement the case company managed to significantly improve performance and reduce space needed for manufacturing.

In order to address the issue of lack of space with the uninterrupted supply approach, the case company accepted such alternative materials feeding method as kitting. In kitting the assembler receives all necessary components for one or several assembly operations in pre-assembled kits. Each kit holds components for one assembly object. Bozer and McGinnis (1992) described two types of kits: stationary kits and travelling kits. The stationary kit is brought to one assembly station and remains there until it is used completely. The travelling kit, contrarily, moves alongside the assembly object and can supply few assembly stations before it is spent. Both stationary and travelling kits are demonstrated in Figure 41. The case company uses in the manufacturing process travelling kits.



**Figure 41.** Stationary and travelling kits (Carlsson & Hensvold, 2008).

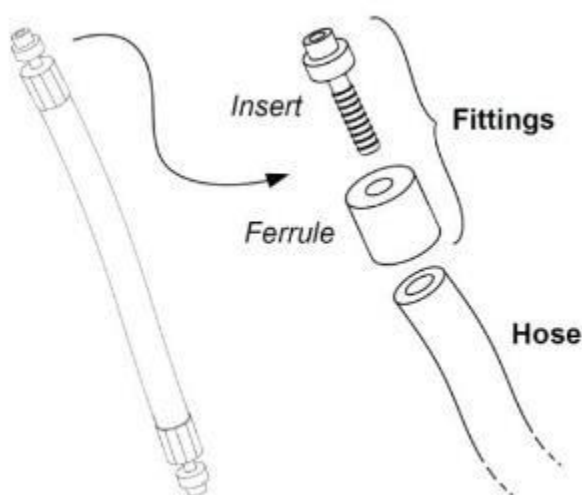
OEMs using kits in their production process face with the problems, that, first, preparing kits requires some time and effort, which is a non-value-adding activity or, in other words, waste. Commonly, kitting requires an increase in storage space, particularly when kits are prepared in advance. By delivering to the customers hose assemblies in preassembled kits the case company takes off non-value-added activities from the customers and reduces their inventory and material handling costs. Such value-added partnership is mutually beneficial, but it is only possible with customers, who use preassembled kits and whose production philosophy falls under lean category.

### 5.3. Value-Added Partnership

While parent company in Italy manufactures fluid connectors, the subsidiaries in Germany, Sweden and Finland are specialized in hose assembly manufacturing. They focus on kit and batch production of hose assemblies and value-added services for the end customer. The production philosophy is based on the combinations of different production methods for high and low volume products. High volume products with low components variety are made in automated production lines, while low volume products are assembled manually.

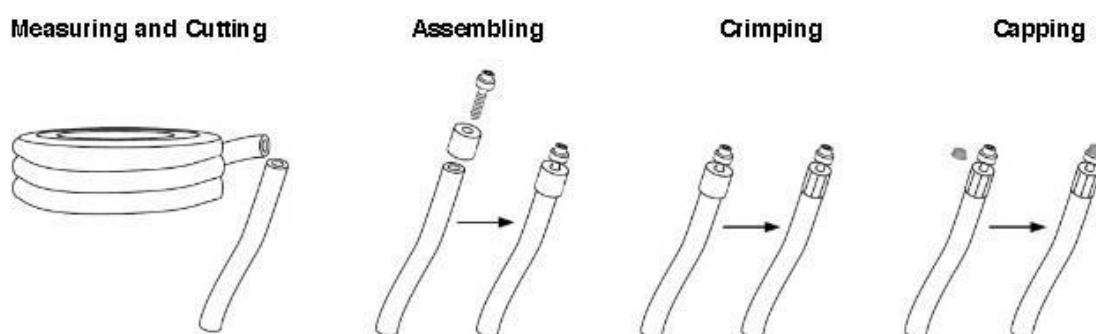
The case company offers to its customers a vast variety of services and technical support, which turns supplier-customer relationship into valuable partnership. Company's hose assembly manufacturing facilities are usually located close to the major customers, which allows to accomplish just-in-time deliveries, reduce customer's inventory. Such cooperation alignment enables the supply of hose assemblies to be highly agile and flexible. The plants actively use modern computer-controlled assembly lines.

Hydraulic hose assembly is one of the essential components in hydraulic machinery, which allows to transmit the force within a machine. The main components of the hose assembly are shown by Figure 42. As it is illustrated, the hose assembly includes a hose and four metallic fittings, an insert and a ferrule from both sides.



**Figure 42.** Main components of hose assembly (Karimian Pour, 2013).

The process of manufacturing the hose assembly comprises four stages, which are demonstrated in Figure 43.



**Figure 43.** Manufacturing process of a hose assembly (Karimian Pour, 2013).

First, the type and size of the hose should be verified with order. When calculating hose length, the change in hose length (expansion/contraction) that may occur during pressurization must be taken into consideration. For measuring and marking the hose must be secured in some type of fixture to ensure straightness. After that the hose is cut to correct length with hose cutter. Both ends of the hose should be inspected visually in order to ensure that the end of hose is cut squarely, has no loose or frayed reinforcement and core tube is not damaged. In case there are frayed ends the hose should be trimmed as required.

After that the ferrules and inserts should be checked for matching work order. The hose should be inserted into ferrule until hose bottoms out against lip of ferrule. The barbed end of fitting should be inserted through ferrule and the fitting has to be pushed inward completely until hex of fitting is flush with end of ferrule. Using a rubber mallet, the fitting has to be tapped onto hose until bottom of fitting shell is aligned with depth insertion

mark. Then, suitable die set should be selected and the hose has to be squeezed radially to make fittings stick firmly to the hose.

Lastly, the hose ends are covered with plastic caps or other methods in order to avoid contamination. Hose assembly length has to be measured and checked for matching work order. Crimp diameter should be measured of each fitting at top, middle and bottom of shell. In order to verify, that crimp diameter is within tolerances measurements have to be taken at a minimum of three places around shell circumference. Pressure test has to be conducted if required.

Hose assembly factories also design and manufacture assemblies according to customer specifications and develop individual solutions to serve best customer needs. In addition, closeness to customer enables to solve any arising problems with product usage proactively. Hose assembly subsidiaries of the case company manufacture hose assemblies at the most advanced level and represent an optimal tool for making kits. Still, the company experiences difficulties in approaching new customers. OEMs are highly loyal to their current suppliers and are reluctant to switch.

#### **5.4. OEMs as Customers**

This study is particularly focused on OEMs as customers, because vertically integrated chain with control on customer interface is the ultimate goal of the case company. In this way the case company is able to implement lean principles in manufacturing and distribution and to establish value-added cooperation with customers.

Business expansion strategy in an industry depends to a great extent on the nature of customers. In hydraulic hose and components business customers are primarily OEM producing machinery for earth moving, mobile, mining and industrial application. Customer product is characterized by high costs per unit. In addition, OEMs are usually big companies with strong brand name.

Selling more to existent customers and finding new customers are the two ways to increase sales of a current product. In hydraulic hose and components business the latter would mean making customer to switch old supplier. Figure 44 represents customer perspective on switching supplier of different components.

		Cost in relation to the entire machine cost	
		High	Low
Importance for machine operation	High	Supplier switch has to be cautious and well-grounded. Risks: High Cost savings: High	Supplier switch is highly unfavorable. Risks: high Cost savings: low
	Low	Supplier switch is reasonable. Risks: low Cost savings: high	Supplier switch will not make a big difference. Risks: low Cost savings: low

**Figure 44.** Supplier switch strategies for components based on cost and impact on operation.

Hydraulic hose assembly belongs to the upper right quadrant of the matrix. The cost of a hose assembly is considerably low comparing to the entire machine costs. That is why customers of the case company are by default reluctant to switch supplier. There has to be a considerable number of factors incenting OEM to switch or their influence on product and service has to be significant. That is why hose assembly market is comparatively rigid and stable. OEMs tend to maintain long-term cooperation with suppliers. Low price and excellent service offer usually is not enough to make customer interested in switching.



## **6. ANALYSING OPPORTUNITIES OF M&A**

### **6.1. Identifying Potential Customers**





A company which is going to expand business by widening customer base has to know well and constantly monitor potential customers. Being aware of potential customers' state of the affairs would allow to see opportunities timely and act proactively.

The research process started during a project for the course called "Operative Sales and Sourcing". Although this thesis and above mentioned project focused on different issues, they were both aimed at solving the problem of expanding business through acquiring new customers in hydraulic hoses and components industry. Thus, at first market research on customers was done.

The market research was conducted with the aim to identify potential leads. The research was targeted toward two customer segments and for each of them a specific geographic location was chosen. The data was gathered using diverse internet sources.

The first segment comprises potential customers for hydraulic hose assemblies. The location was chosen to be Austria and Germany as the case company has its hose assembly subsidiary in Germany and has an opportunity to provide high quality services to customers. Proximity to customers enables the case company to put into life its key principles of cooperation like just-in-time delivery, flexible manufacturing and minimizing customer's inventory. In addition, Germany and Austria represents a geographical area with high concentration of OEM producing heavy machinery for earth moving, mining, mobile and industrial application, in which hydraulic hose assemblies are used.

The research was aimed at gathering information about the names of potential customers, their official website, contact information and description of products they produce. In order to determine company size and its production volumes the data regarding sales and number of employees was obtained. All information was collected into Excel database. Pictures of product samples were included for visual representation. A fragment of the database is demonstrated in Figure 45 below.

Company Name	Website	Country	Product	Product Samples	Facilities	Key data
ATBM HandelsgesmbH	<a href="http://www.atbm.at">www.atbm.at</a>	Austria	Drilling equipment, Hydraulic hammers, Rotary actuators, Double-head drilling units		Untere Ortsstraße 25, A-2481 Achau, Austria +43 2236 735600	Sales volumes(€): 2.687.000 Employees: 6
Terex Compact Germany GmbH	<a href="http://www.terex.com">www.terex.com</a>	Germany	Mini & midi excavators, compact wheel loaders, compact wheel excavators.		Kraftwerkstraße 46 74564 Crailsheim, Germany +49 7951 93570	Sales volumes(€): 424.610.000 Employees: 590
Liebherr-International Deutschland GmbH	<a href="http://www.liebherr.co">www.liebherr.co</a>	Germany	Construction machines, Mining equipment, Mobile and crawler cranes, Material handling technology, Maritime cranes		Im Eichgrund 12 88427 Bad Schussenried Germany +49 7583 949-0	Sales volumes(€): 7.010.558.000 Employees: 23762
Putzmeister Holding GmbH	<a href="http://www.putzmeister.com">www.putzmeister.com</a>	Germany	Concrete spraying equipment for rock-support in tunnels and underground mining, Concrete mixing and transport equipment		Max-Eyth-Str. 10 72631 Aichtal Germany +49-7127-599-0	Sales volumes(€): 892.628.000 Employees: 2732
Sany Germany GmbH	<a href="http://www.sany-germany.com">www.sany-germany.com</a>	Germany	Excavators, Port Machinery, Crawler Cranes		Sany-Allee 1 50181 Bedburg, Germany +49 22729053(1100)	Sales volumes(€): 28.243.000 Employees: 121

**Figure 45.** Examples of machinery manufacturers in Austria and Germany.

The information was gathered using different kinds of industrial databases, industry associations, company websites, exhibitors' lists of trade fairs and distributors' product lists. As a result, around one hundred potential customers were identified.

The second customer segment was also chosen based on the case company's current needs. The company was about to launch the production of high pressure hoses. The aim of the research was to identify OEMs, who use high pressure hoses in their products. As the product is comparatively new for the company, the study was supposed to identify areas of application as well.

In the course of the study three main areas of application for high pressure hoses were identified:

- Water jet cutter - an industrial device able to cut a wide range of materials using a very high-pressure jet of water, or a mixture of water and an abrasive substance.
- Hydrodemolition - a concrete removal technique utilizing high-pressure water to remove deteriorated and sound concrete as well as asphalt and grout. This process creates an excellent connection surface for repair material and new coating applications (KMT Aqua-Dyne, 2016).
- Hydrocleaning – devices which use water propelled at high speeds to clean surfaces and materials. By centering and pushing the water stream, the force generated can take out films and materials such as paint from walls, metal, and highways, rubber from airfield runways, sealants and membranes from concrete and chewing gum from sidewalks.

As high pressure hose is a product for a niche market segment larger geographical area was covered in the study. Potential customers were searched all over the European region. The research helped to identify 34 potential leads who use high pressure hoses in their product. A fragment of created database is shown in Figure 46.

Company	Website	Country	Product	Product Sample	Facilities	Key data
ANT Applied New Techn	<a href="http://www.ant-ag.com">www.ant-ag.com</a>	Germany	Mobile waterjet cutting systems, Special purpose waterjet cutting devices		Hinter den Kirschkatzen 32, D-23560 Lübeck, Germany +49 (0)451583800	Sales volumes(€): 6.195.000 Employees: 26
PTV, spol. s r.o.	<a href="http://www.ptv.cz">www.ptv.cz</a>	Czech Repub	Waterjet cutting machines		Čsl. armády 23, 253 01 Hostovice Czech Republic +420 220 981 430	Sales volumes(€): 11.662.000 Employees: 63
Resato International B.	<a href="http://www.resato.com">www.resato.com</a>	Holland	Waterjet cutting installations, Waterjet cutting pumps		1e Energieweg 13, 9301 LK Roden, Holland +31 50 5016877	Sales volumes(€): 19.846.000 Employees: 60
Rösler Oberflächentechnik GmbH	<a href="http://www.roesler.com">www.roesler.com</a>	Germany	Waterjet coating removal and cleaning machines		Werk Memmelsdorf Vorstadt 1, 96190 Untermerzbach Germany +49 9533 924-0	Sales volumes(€): 143.000.000 Employees: 874
STM Stein-Moser GmbH	<a href="http://www.stm.at">www.stm.at</a>	Austria	Waterjet cutting machines		Gewerbegebiet - Gasthof Süd 178 5531 Eben im Pongau, Austria +43 6458 200140	Sales volumes(€): 5.506.000 Employees: 22

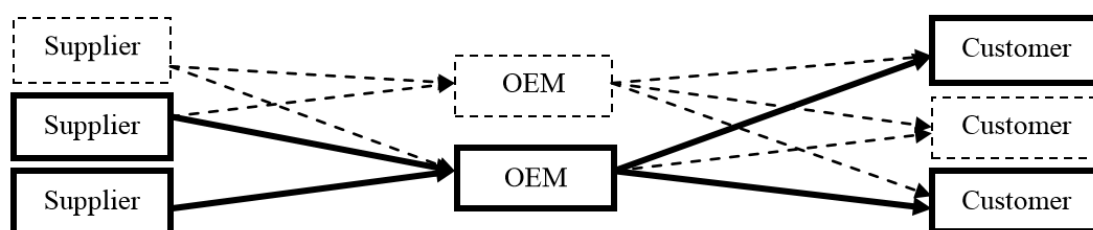
**Figure 46.** Examples of OEMs using high pressure hoses in Europe.

The conducted market research is an example of how the case company can gain market intelligence. Such database provides market overview and can be used as a basis for further exploration of potential leads. Particularly, the case company requires information on how potential customers cooperate with current suppliers, the reasons why did they choose these suppliers and can the case company make a competitive offer.

Companies know that satisfying all customers' needs in a single market by a single marketing strategy is almost impossible (Kara and Kaynak, 1997) and they try to find marketing strategies to identify and achieve discrete segments (Christopher, 1969). In B2B environments – with fewer customers – the main role of segmentation is to choose the right customers considering company's competencies and resources (Lyly-Yrjanainen et al., 2009). The main unique competency of the case company refers to its production philosophy. As lean manufacturing lies in the foundation of the production process, it is important for the case company to cooperate with customers with similar values.

As was pointed out by Agus and Hajinoor (2012), the fierce rivalry between companies makes them get more knowledge about the business characteristics of their suppliers and customers. In fact, all the companies in a chain should work in alignment with excellent performance in order to provide a high-quality product to customers. For lean companies

who commit their efforts to reduce waste and increase productivity in the chain (Nicholas & Soni, 2006), the chain should be modified to a lean supply chain. Figure 47 demonstrates a simplified view of such relationships in supply chain. In the lean supply chain all processes from providing raw material to delivering final product to customer is considered as an integrated flow (Lamming, 1996). All members of the supply chain try to eliminate the non-value adding activities in sourcing, manufacturing and distribution.



**Figure 47.** Lean Supply Chain ( — Lean ----- Non-Lean) (Momeni, 2013).

In B2B settings, if customers do not apply lean production philosophy in their own businesses, they could influence the lean production system of the partners. For instance, customers that are not lean may not commit themselves to level their production schedules (Momeni, 2013). This will lead to irregular and unpredictable orders that are difficult to meet by the supplier (Nicholas and Soni, 2006). The issues with non-lean customers can cause an increase in production cost and influence the ultimate profitability. Consequently, the lean company should aim at identifying lean segment as its target market.

Thus, the potential leads identified and described in Chapter 6.1 represent the long list. Before approaching potential customers with proposition further segmentation should be done in order to identify the right market segment. Cardozo and Wind (1974) proposed two-stage segmentation in order to reduce research efforts and cost. Therefore, first, the customers have to be segmented on those who implement lean principles in their operation and those who do not. Secondly, a group of lean customers has to be segmented on those who use preassembled kits of hose assemblies in their production process and those who use other supply methods. In this way, the right target segment will be identified.

When the research on customers was ready it was presented on the meeting with company management. The meeting provided a deeper insight into the company's goals, future perspectives and current difficulties. The CEO of the company commented the following:

*“When such analysis is done, it is a very powerful tool when some acquisitions take place in the market. When, for example, one big player purchases a smaller one, it may be the case that the current customers of the small acquired company*





*may be interested in changing the supplier. With such information updated, we can be ready to move fast when such acquisitions take place.”*

Fruitful conversation gave an incentive to continue the research in the area M&As and business opportunities they can provide for competitors. The topic for master’s thesis was discussed and agreed.

## 6.2. Linking Potential Leads to Competitors

During the research on potential customers described in Chapter 6.1 it came out, that information on suppliers usually in not public and is hard to find on the internet. For this reason, the second stage of the research was performed. During this stage a forestry machinery exhibition in carried out in Finland was visited with the aim to get information on suppliers of potential customers.

The suppliers were identified by visual examination of the hoses in the machines produced by potential customers. In order to facilitate data gathering and processing the machines and corresponded hoses were fixed by camera. Later, the received data was structured into a database, a fragment of which is demonstrated in Figure 48 below.

Company	Contact Information	Product Sample	Hose Supplier
Logman Oy	<a href="http://www.logman.fi">www.logman.fi</a> Hitsaajankatu 7 61300 Kurikka, Finland Phone: +358 (0) 207 862 800 Fax: +358 (0) 6 4500 888		Parker
Ponsse Oyj	<a href="http://www.ponsse.com">www.ponsse.com</a> Ponssentie 22 74200 Vieremä, Finland Tel: 020 768 800 Fax: 020 768 8690		Bridgestone, Manuli
Lännen Tractors Oy	<a href="http://www.lannencenter.com">www.lannencenter.com</a> P.O. Box 141 FI- 32201 Loimaa, Finland Tel. +358 20 7612 200 Fax +358 20 7612 290		Hydroscand
Nokka	<a href="http://www.nokka.fi">www.nokka.fi</a> Teollisuustie 4, P.O.Box 4 40950		Hydroscand

**Figure 48.** Linking potential customers to competitors.

Potential customers were linked to competitors for the purpose of creating a market map. Such market map simplifies market overview and analysis, and also allows to track market dynamics. Any movements in the market map signify a change in the relationship

of potential customers and their suppliers, and in this way might indicate a beneficial time for competitive responses.

### 6.3. M&A in the Industry

The activity of companies in terms of mergers and acquisition varies from industry to industry. Hydraulic hoses and components industry is capital intensive. The establishment of a new company requires great investments for machinery and infrastructure to make a profit. The industry is characterized by oligopolistic structure. Around 10 major companies manufacture 95% of hoses and fluid connectors. On the other hand, hose assembly manufacturing is not capital intensive and there are many small players in the industry.

In order to draw general picture on behavior of companies in hydraulic hoses and components industry during M&As in the scope of this study a research was conducted. The aim of the research was to collect data about M&As and identify trends specific for the industry.

The research includes historical data about M&As happened during the lifespan of 14 global players in hydraulic hoses and fluid connectors industry. The information was collected from the material published by companies on their official websites and structured into a database a fragment of which is demonstrated in Figure 49 below.

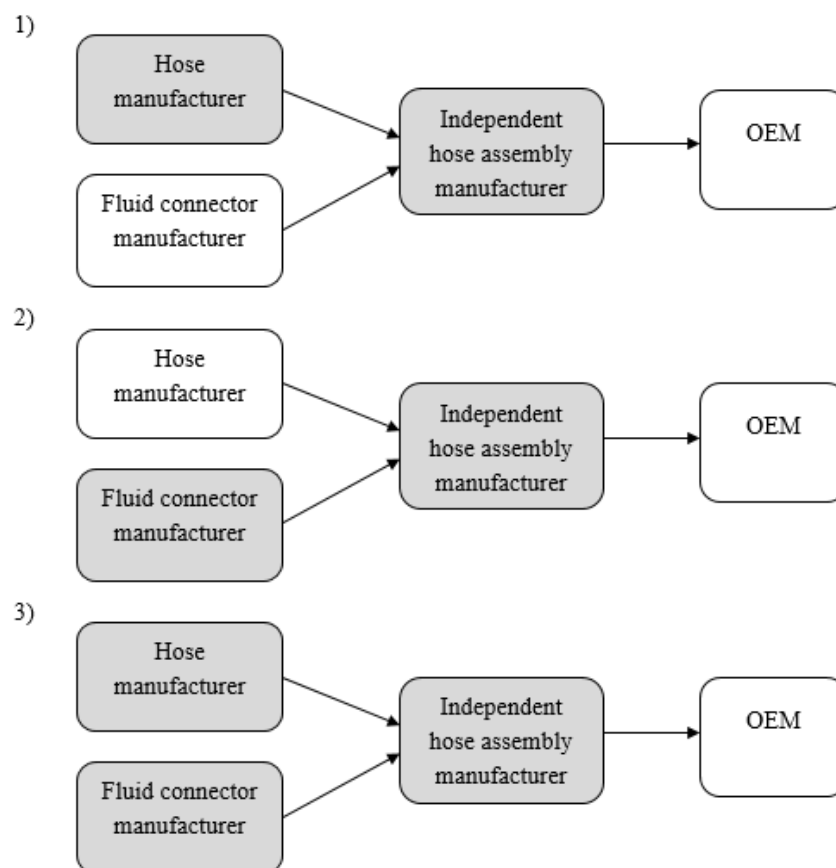
	Company	Year of foundation	M&A	
			Year	Event
1	Semperit AG Holding	1824	1912	The Semperit Group is established following the merger of different manufacturing plants
			1989	Acquisition of a 100% shareholding in the French conveyor belt company SFBT
			1998	Acquisition of Europe's largest hose factory, located in the Czech Republic
			2000	Acquisition of a conveyor belt factory in Poland
			2001	Acquisition of a majority stake in an Indian conveyor belt facility
			2001	Acquisition of an Italian hose factory
			2009	Acquisition of a conveyor belt plant in China
			2012	Acquisition of Latexx Partners Berhad, Malaysia
			2015	Acquisition of Leeser, Germany
2	Alfagomma S.p.A.	1956	1991	Acquisition of French company CICMP, a specialist manufacturer of hydraulic and industrial hose fittings and hose assemblies
3	Hansa-Flex AG	1962	2002	The firm Willmann Steuerungstechnik GmbH, which specialises in the construction of units and hydraulic steel construction, is taken over by HANSA-FLEX.
			2005	In one step HANSA-FLEX takes over 100 per cent of the firm K+S Hydraulik GmbH in Neulußheim.
4	Manuli Rubber Industries S.p.A	1975	1994	Acquisition of Sonatra, now Manuli Sonatra, with central warehouse in Nantes
			1995	Acquisition of Hydrofit, a leading European manufacturer of metal fittings for hydraulic applications
			1996	Acquisition of OTIM in France (now Manuli Otim) hose assembler for the OEM market
			1997	Acquisitions of Dehak in Poland (now Manuli Hydraulics Polska) a manufacturer of metal fittings for mining applications
			1998	Acquisition of Keasan, manufacturer of hose assemblers in Changwon City (South Korea) to supply

*Figure 49. Historical data about M&As in the industry.*

The study shows that around 87% of all M&As are made by 21% of companies. The acquirers are usually big companies which chose acquisitions as a strategy for business growth. Acquisitions of a hydraulic hoses and components or hose assembly companies are accomplished with the aim to strengthen and develop the acquirer's core competence

as well as a part of diversification program. The study shows that the variety of M&As happen, providing more or less auspicious environment for competitors.

The predominant trend for M&A in the hydraulic hoses and fluid connectors industry is vertical integration. The majority of hose and fluid connectors manufacturers are large enterprises, who are willing to acquire independent hose assembly manufacturers in order to fully control the delivery of product to customers. They want to eliminate an independent link between and customers with the aim to get control over customer interface. M&A can involve different combinations of hose manufacturer, fluid connectors manufacturer and hose assembly manufacturer. This study is focused on M&A during which an independent hose assembly manufacturer is acquired by its supplier, that can be either hose manufacturer, or fluid connector manufacturer, or both. Such M&As are demonstrated in Figure 50, where merged companies are highlighted in grey.



**Figure 50.** M&As in which hose assembly manufacturer is acquired.

Although the acquirer expects to acquire the company together with existing customer base, commonly the expectations do not match with reality. Watson (2007) argues that the loss of main customers is considered one of the most common characteristics of unsuccessful acquisition. This is supported with quantitative study of Ryden (1972) who found out that a customer loss rate following acquisition ranges from 25 to 50%.



According to Öberg (2008) although M&A deal offers to the acquiring company an access to new brands and additional customer base, it does not guarantee upcoming revenue from these brand names, or a complete retention of customers. Lost customers for the merging company means new customers for competitors. Consequently, M&As can be viewed by competitors as opportunities.

#### **6.4. Business Expansion in the Industry**

In order to use M&As in rival companies as advantageous time to approach their customers with business proposition, it is important to know who are the potential customers and who supplies them. After that those companies can be tracked regularly and in case of any M&A occurs, an intensive work with potential customers can be activated. For this reason, in the scope of this study the information about potential leads and their suppliers was gathered and placed into a database. Customer segmentation based on lean characteristics and kits assembly allowed to determine the target customer segment and in this way reduce research efforts. As a result, the created database represents a “market map”, a tool for monitoring market dynamics.

A competitor usually supplies several potential customers of the case company. Consequently, when a M&A occurs the case company will have an opportunity to work with a pool of potential customers, which increases chances to get a new customer. When developing a strategy for working with a pool of customers impacted by M&A it is important to consider the laws of group behavior. Individual behavior is influenced by the presence of others (Crano, 2000). Groups also have an effect on individual's decision-making processes. Commonly, positive experience of a first mover serves as a trigger for other companies in the group to switch the supplier. The more influential the first mover is in a business world the greater effect it will have on others in the group. Thus, it would be beneficial to direct resources and target, first of all, a customer, whose positive word of mouth would be able to make others follow its example.

The proposed database is meant also to include a detailed information on competitors. Naturally, when M&A happen all competitors would be seeking opportunities to approach potential customers. Knowing well competitor's offer would allow to develop a superior counteroffer in a shorter period of time. The database is a tool enabling the case company to be proactive. The right moment plays a critical role in the outcome of business proposition.



## 7. DISCUSSION

### 7.1. Overview of the Problem and Framework

The strategy of market penetration is hard to implement in industries with high supplier switching barriers. Dwyer et al. (1987) argues that a strong relationship between supplier and customer serves as an agility block. In B2B market relationships between companies are also interpersonal and develop through social interaction. Bendapudi and Berry (1997) stated that the social bonding leads to growth of the customers' dependence on the supplier.

When developing strategy for acquiring new customers, a supplier has to understand how customers perceive their relationship with suppliers and what are the drivers of their purchasing decisions. An insight into customer behavior can help to find the right approach and build an effective proposition. Looking at customer's purchasing portfolio from the perspective of supplier switch enables better understanding of customer viewpoint. For components, the costs of which are low, but at the same time their importance for the machine operation is considerable, the risks in switching supplier are high, because the component's failure can seriously affect the brand name. Low cost of the component comparing to the entire machine cost makes OEM to be highly rigid in terms of switching the supplier. The benefits of such transaction are low, and considering high risks, it is not reasonable to spend efforts and company resources on it.

Suppliers, whose product belongs to the upper right square in Figure 34, face difficulties with acquiring new customers. From customer's view switching barriers are too high comparing with possible positive outcome. In addition to switching costs customers have doubts whether a new supplier will perform service on the same level. Also, trust, commitment and communication issues are uncertain. Finally, cooperation with new supplier in case of any shortcomings might lead to corporate image damage. Therefore, OEMs tend to maintain long-term cooperation with suppliers. According to Yen (2010) for customers with high perceived risks, the relationship of switching costs and customer loyalty is weak or negative (Yen, 2010). Low price and excellent service offer usually are not enough to make customer interested in switch.

As was mentioned by Selos et al. (2013), who applied SPAT to the process of B2B supplier switch, customers have to experience a certain number of critical encounters before they get to the point where the decision to switch the supplier is made. In the case of above mentioned group of components, there has to be a considerable number of critical encounters or their impact has to be strong enough to provoke supplier switch.

M&A as a complex organizational change can cause numerous critical encounters. As was mentioned in Chapter 2.4, the reactions of customers on supplier's M&A is often rather negative than positive. Customers usually demonstrate a high level of uncertainty and doubt. Jaju et al. (2006) states that brand and strategy integration during M&A make customers confused. This is in line with Homburg and Bucerius (2005), who were talking about customers' disturbance and worries about the outcomes of the post-merger phase in terms of prices, product and service quality, contact persons, especially if the acquirer does not allot proper attention to communication. Other researchers also claim, that customer abstinence and rejection are not uncommon responses during M&A (Reichheld & Henske, 1991; Zollo & Meier, 2008).

Scire (2005) describes psychological aspects of human perception of organizational change. The author applies the model of extreme personal change proposed by Kübler-Ross (1969) to change in organization. The sequence of emotions an individual experiences during change represented in the curve can be used to predict how performance is likely to be affected by the announcement and subsequent implementation of a significant change (Scire, 2005). It exhibits an initial growing severity of emotional response to change, making business performance to decrease incrementally over time. The process endures until the curve finally goes upward, with performance move stealthily back toward its finest level. This phenomenon can be applied to any type of change within the workplace, notably when systems and/or processes are being improved or replaced (Terrell, 2015).

After announcing an acquisition or merger deal the productive value of the organizations in most cases goes down. In the best scenario, it decreases while employees begin to talk about the deal, then increases when they go back to work. But more often, the productive value of an organization will significantly lag, potentially for a long time, as employees try to figure out what the deal means to them (Bundy, 2007). The lag will occur in such areas as corporate functions, IT functions, salesforces, customers and executive leadership. One way to see how culture impacts the value of a deal is by studying the "value curve".

Both Kübler-Ross curve and value curve proposed by Bundy (2007) suggest that supplier's performance will decrease in case of merger or acquisitions. Bundy (2007) points out that until the supplier will reach crossover point the newly created company is unable to deliver the same value as it did before. In addition, the Kübler-Ross change curve (Kübler-Ross, 1969) demonstrates that employee's morale of the supplier will be lower, which will also affect performance. Kübler-Ross change curve can be applied not only to the situation in merging organizations, but also to customer emotions. The relationship between supplier and customer might worsen due to dual effect. In addition, M&As in supplier affect almost all determinants of customer loyalty proposed by Rai and

Srivastava (2012). Considering all above mentioned, M&A serve as a strong destabilization factor for customer loyalty.

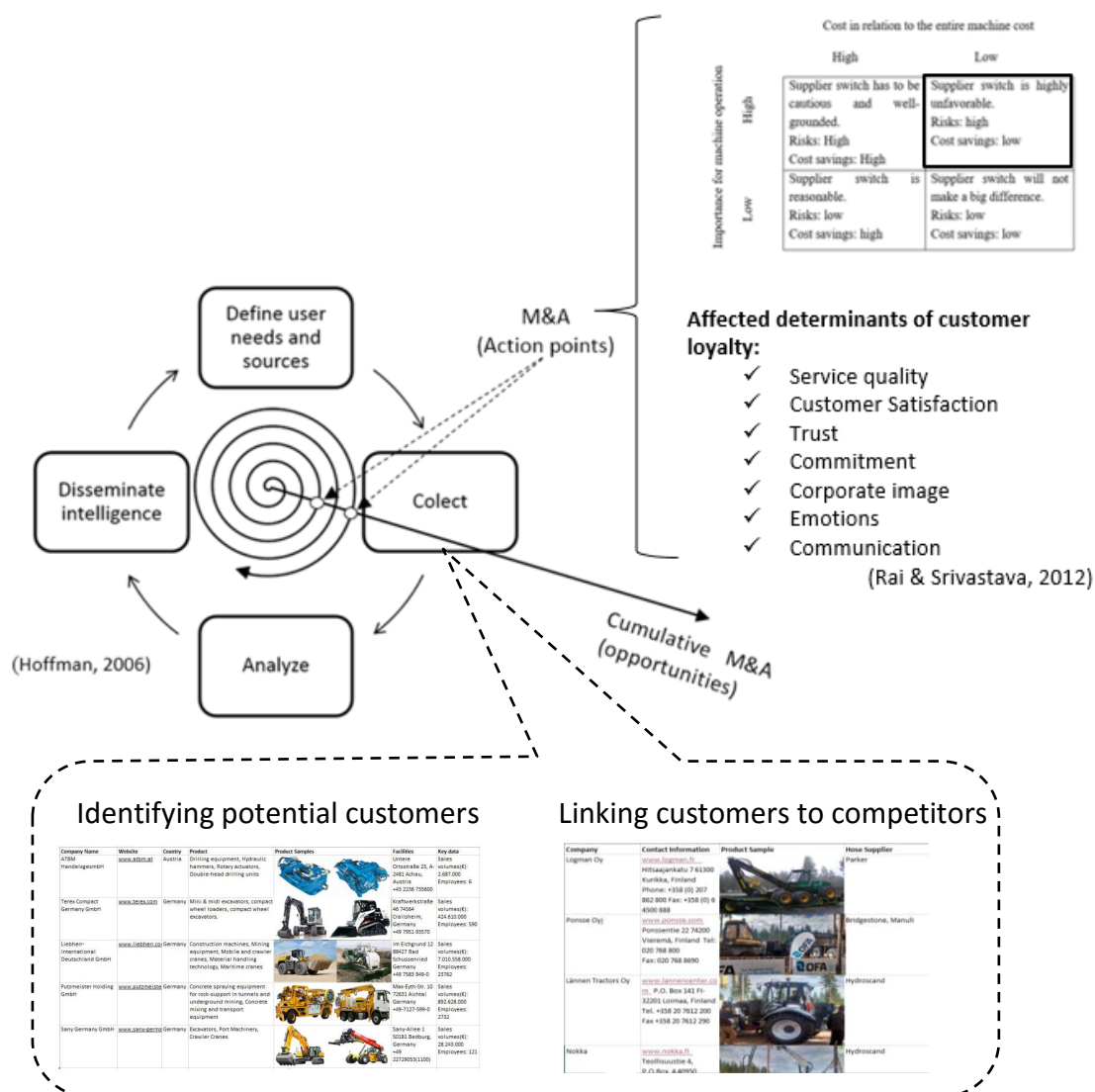
To sum up, this thesis claims that in industries with high supplier switching barriers, M&As can offer to competitors an opportunity to acquire new customers. However, in order to detect M&A and other advantageous changes in competitors' companies the market has to be systematically and thoroughly observed. It is important that marketing managers, marketing executive, marketing researchers and other personnel of a company attain proper knowledge about changes in the marketing environment. An alertness and sensitivity to the environment is very essential ingredient of business success, survival and longevity, because of the firm's dependence on it for resources inputs and services outputs (Igbaekemen, 2004). That is why companies should continuously work on gaining competitive intelligence. In this way changes and, accordingly, opportunities in market will not pass by unnoticed.

## **7.2. Reflection of the Case in Framework**

The case represents application of the framework in a specific context. The objective of the case study was to create a tool for capturing business opportunities during mergers and acquisitions in rival companies in hydraulic hoses and fluid connectors industry. The industry is characterized by low agility level in terms of supplier switch. Customers tend to maintain long-term partnerships, highly appreciate reliability and stable cooperation.

As was mentioned in Chapter 5.4 hydraulic hose assembly belongs to the square of the supplier switch strategy matrix, where the cost of a component is significantly lower comparing to the entire machine costs, but the importance of the component for the machine operation is high. For this reason, customers of the case company are by default reluctant to change supplier. There has to be a considerable number of factors incenting OEM to switch or their influence on product and service has to be significant.

The case refers to the part of the framework devoted to the process of gaining competitive intelligence continuously. Figure 51 demonstrates the position of the empirical study in connection with the theory framework. The empirical study refers to collection and analysis of the market information in order to gain competitive intelligence and react timely to mergers and acquisitions in rival firms.



**Figure 51.** The position of empirical case in the theory framework.

The collection of market information was conducted in two stages. The first stage was devoted to identifying potential leads, targeting two customer segments in a specific geographic region. The second stage of the research was aimed at getting information about suppliers of potential customers. After that the nature of M&As in the industry was analyzed and their history was studied for the purpose of seeing trends and general picture.

The empirical study was aimed at contributing to the case company's process of gaining competitive intelligence. Thus, the conducted research is a fundament for monitoring market dynamics, identifying M&As and making benefit out of opportunity windows they represent. With the help of created database when M&As occur the company can easily spot potential customers whose loyalty to current supplier is getting weaker, and consequently who are more open to supplier switch.

### **7.3. Research Assessment and Limitations**

In the empirical cases, the following research limitations can be pointed out. In the identifying potential leads part basic information about possible customers was collected. This information is not enough for approaching a company with proposition to cooperate. The case company still have to make an investigation on the product specifications, required services, as well as relationship with current supplier. Visiting trade fairs and making personal connections would help to attain necessary information. Only after that the short list of potential customers worth to approach can be made.

The created database is only a prerequisite for the database, which can be used by company's management and employees. First, the database should contain much more information regarding cooperation of potential customers with their suppliers. If the partnership contains features that the case company cannot replicate or substitute, this potential customer might not be the first one to direct resources on. Second, information about market dynamics should flow regularly into the database. This can be achieved by establishing effective information passage through the organization and appointing people responsible for it. Also, the database should have an interface which allows easy and fast adding of new information, and a dashboard facilitating the analysis.

Finally, the part of studying history of mergers and acquisitions has limitations regarding the number of studied companies. The amount of companies was narrowed down due to the unavailability of information. The companies covered in the research are mostly large enterprises, who have published their history on own official websites. Nevertheless, the aim of the research was not to provide the exact statistic on mergers and acquisitions in the industry, but to illustrate general picture and trends.

### **7.4. Theoretical and Practical Implications**

The study was aimed to explore one more way to acquire new customers in industries with low agility level in terms of supplier switch. The reluctance of customers to switch supplier is usually explained by high switching barriers and hydraulic hoses and fluid connectors industry is a good example of this. As was mentioned in Chapter 5.4 the costs of hydraulic hose assembly are low, but at the same time it is essential for machine operation. The risks in case of switching supplier are high, because component's failure can seriously affect the brand name. Low cost of the component comparing to the entire machine cost make OEM to be highly rigid in terms of switching a supplier. The benefits of such transaction are low, and considering high risks, it is not reasonable to spend efforts and company resources on it. Consequently, more sophisticated approach and strategic view was searched, and as a result the study proposes to use the period of major changes in competitive supplier company, like mergers and acquisitions, in order to approach potential customers.

Most of the studies about mergers and acquisitions are focused on company's internal processes. Although, a several scholars studied customer reactions to M&As, scarce attention was given to other stakeholders taking part in the transaction. In particular, competitors have been often viewed as a threat, while the perspective of competitors and the opportunities mergers and acquisitions represent for them have not been much discussed in the literature. Thus, this study was aimed to contribute to this area and incent further research.

In order to explore business opportunities mergers and acquisitions represent for competitors the thesis studied psychological processes that are usually take place in customer company in response to changes in supplying company. The author applied Kübler-Ross (1969) change curve with the aim to explain customer feelings during supplier's merger or acquisition. In addition, to show that negative reaction of customers is well-reasoned it was demonstrated how supplier experiencing merger or acquisition fails to deliver expected value to customer. Soon after a merger or acquisition occurs the supplier not only is unable to deliver predicted additional value, but the company even fails to maintain it at previous level.

The objective of empirical study was to contribute to the process of gaining market intelligence of the case company. As was suggested by thesis's framework this is essential for applying strategy of using mergers and acquisitions in competitive companies as business opportunities. First, the study gathered information about potential customers and their suppliers. Second, the market and business environment in the industry was analyzed from the perspective of M&As. Third, the study elaborated on the opportunities mergers and acquisitions represent for competitors in the industry context. All in all, the empirical study was conducted to improve awareness of the market and create a basis for the application ideas developed in the framework with the aim to expand business.

## 8. CONCLUSIONS

The strategy of business expansion through widening customer is hard to implement in industries with high supplier switch barriers. Strong long-term relationship between a supplier and a customer significantly decreases chances that the customer will be willing to change the supplier. Moreover, suppliers are interested in bonding with customers and making them as much dependent as possible. Nevertheless, shuttering changes in business environment are able to make parties seriously reconsider cooperation previously accepted for granted. Mergers and acquisitions represent a major change in company able to destabilize strong partnership built even through years of cooperation. The reason for it is a way in which human beings psychologically perceive changes, and temporary inability of merged company to deliver expected value to customer.

The objective of this thesis was to explore business opportunities mergers and acquisitions represent for competitors in industries with high supplier switch barriers, and to create a tool for their proactive identification. The theory framework was developed by bringing together the theories and concepts from such areas as acquisitions and mergers, market intelligence, organizational change, customer value, customer loyalty and switching barriers. The empirical data has been collected from the case study, which was conducted for a company specializing in manufacturing hydraulic fluid connectors and hose assemblies. The goal of the case study was finding ways to maximize opportunities represented by mergers and acquisitions in the industry.

The results of the study suggest that mergers and acquisitions in competitive companies should be viewed as a fruitful period of time, during which the company can attract those potential customers, cooperation with which was impossible at other times due to strong relationship with current supplier. The study demonstrates benefits of making constant monitoring of acquisitions and mergers in the industry a part of company strategy. The strategic view allows company to be proactive and to capture wider range of business opportunities. In addition, the work on potential customers can be started before other competitors are fully aware of a merger or acquisition and activate their resources. The outcomes of the thesis represent a model for business development in specific industries. The study brings out the necessity for further research in the areas of strategic planning and knowledge sharing. In particular, this thesis provides incentives for creating a system allowing effective information passage through the organization. Also, a deeper insight in strategic actions regarding competitor's mergers and acquisitions appears as a topic for further research.

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